

AR73

**FINNING INTERNATIONAL INC.**  
ANNUAL REPORT 2003

**HERE**



## CONTENTS

- 1. Corporate Profile
- 16. Performance at a Glance
- 17. Achievements
- 18. Report of the President and CEO
- 26. Review of Operations – Finning (Canada)
- 30. Review of Operations – Finning (UK)
- 32. Review of Operations – Hewden
- 34. Review of Operations – Finning South America
- 40. Review of Operations – Finning Power Systems
- 44. Review of Operations – Customer Support Services
- 46. Corporate Responsibility
- 48. Financial Management
- 51. Management's Discussion and Analysis
- 69. Management's Report to the Shareholders
- 69. Auditors' Report
- 70. Consolidated Financial Statements
- 92. Ten-Year Financial Summary
- 94. Board of Directors
- 95. Corporate Officers
- 96. Corporate Governance
- 97. Shareholder Information

(Monetary amounts in this annual report are in Canadian dollars unless otherwise noted.)

Finning International Inc. sells, rents, finances and provides customer support services for Caterpillar equipment and engines, and complementary equipment, in Western Canada, the United Kingdom, and South America (Argentina, Bolivia, Chile and Uruguay). The Corporation's Head Office is located in Vancouver, B.C., Canada. Finning International Inc. is a widely-held, publicly traded corporation, listed on the Toronto Stock Exchange (symbol FTT).

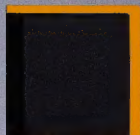


**The moment is here:** The time to take stock of our successes, and give voice to our future vision. In 2003, we earned record revenue. We enjoyed another year of strong earnings. And we took decisive actions to ensure our continued growth in the years to come.

So how did we arrive at this moment? Through a clear vision of the course before us and through an unflagging adherence to our guiding principles, which we call the "Finning Formula". It is with these six tenets that we measure everything we do: our past accomplishments, our present ventures and our opportunities to come. Time has demonstrated their value, and we will continue their rigorous application in every decision we make.



[ THE FINNING FORMULA ]  
LEVERAGE THE CAT BRAND



# THE LARGEST DISTRIBUTOR OF CATERPILLAR PRODUCTS IN THE WORLD



Whisper Business Reference Library  
University of Alberta  
1-18 Business Building  
Edmonton, Alberta T6G 2R6

HERE





[ THE FINNING FORMULA ]  
COMMAND STRONG REGIONAL MARKET SHARES





A yellow Caterpillar forklift is shown in a warehouse setting, moving large stacks of lumber. The operator is wearing a hard hat and a high-visibility vest. The forklift has "CAT" and "CATERPILLAR" branding. The background shows more stacks of lumber and industrial equipment.

HERE

# ACQUISITION OF LEX HARVEY RAISED OUR SHARE OF THE U.K. MATERIALS HANDLING MARKET



[ THE FINNING FORMULA ]

MAXIMIZE PARTS, SERVICE AND RENTAL REVENUE



**HEWDEN**  
Plant Hire





HERE

**THE LEADING  
EQUIPMENT  
RENTAL COMPANY  
IN THE U.K.**

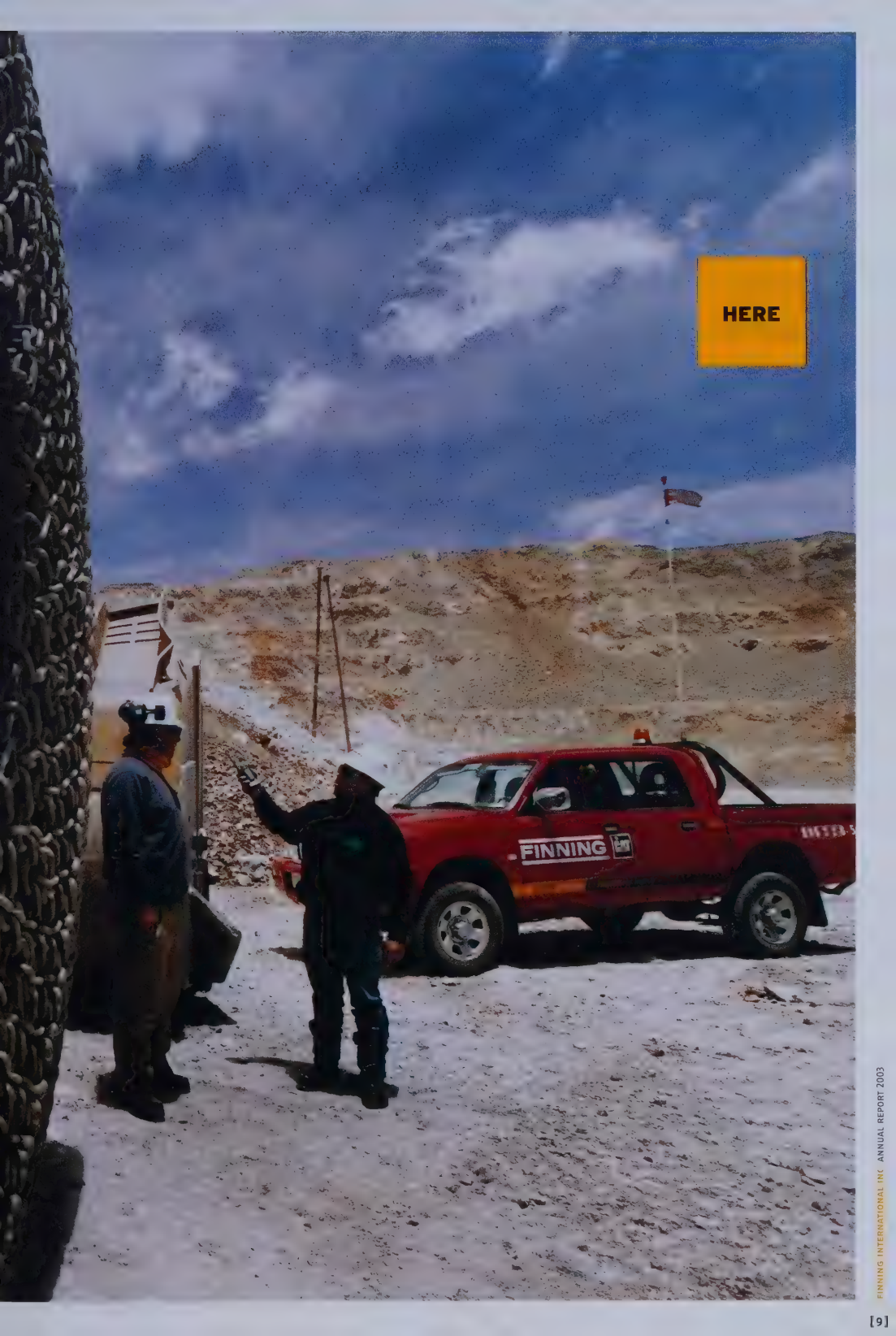


[ THE FINNING FORMULA ]  
SOLVE DIFFICULT CUSTOMER PROBLEMS



# SERVICING EQUIPMENT WHERE AND WHEN IT'S NEEDED





HERE

[ THE FINNING FORMULA ]

ESTABLISH CLEAR FINANCIAL EXPECTATIONS THROUGHOUT THE ORGANIZATION





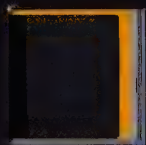
A photograph of a rocky, arid landscape under a blue sky. The foreground is filled with reddish-brown rocks and dirt. In the upper right, a yellow box contains the word "HERE". The text "SETTING AMBITIOUS AND ACHIEVABLE GOALS" is overlaid in large white letters at the bottom.

**HERE**

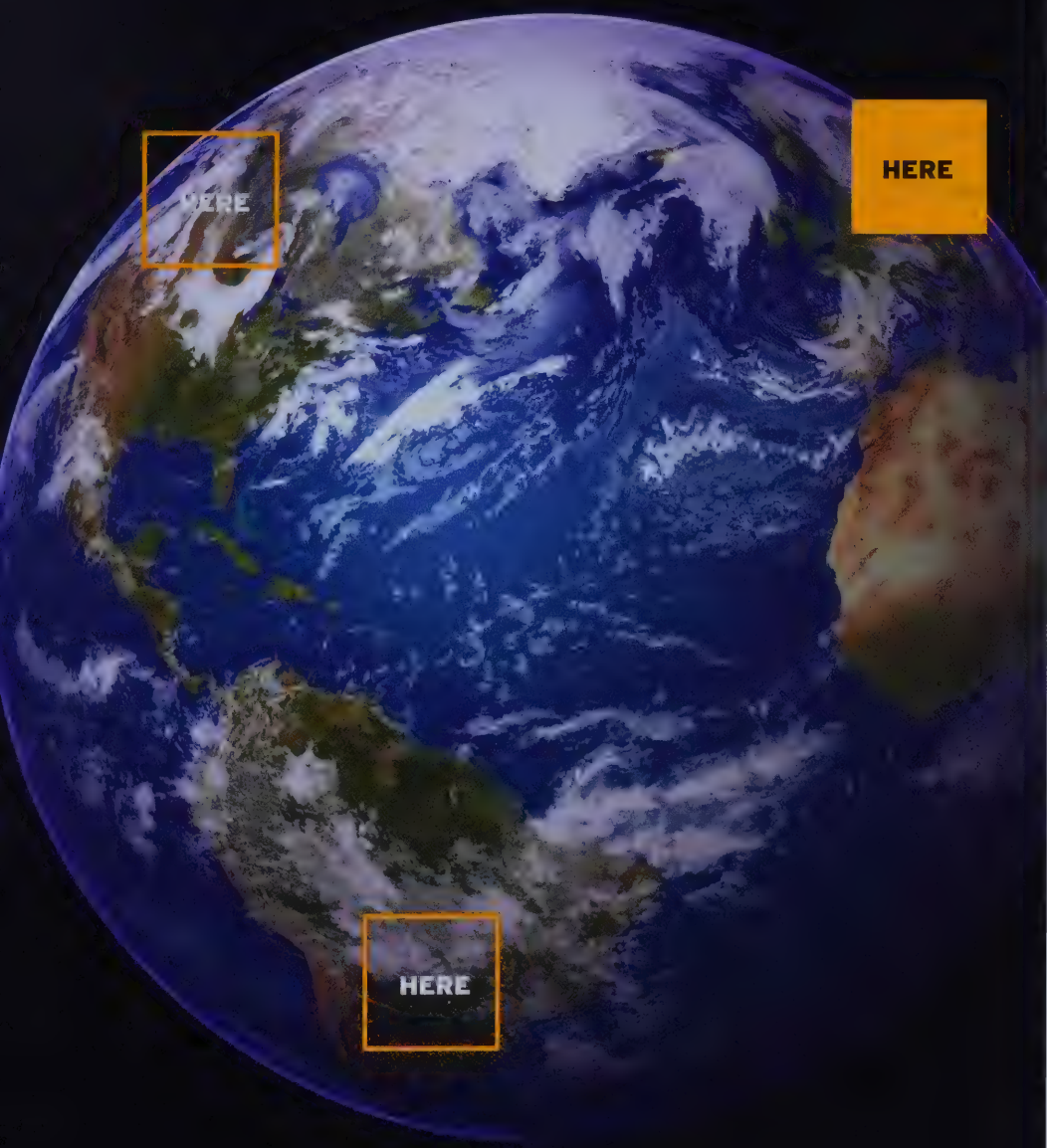
# SETTING AMBITIOUS AND ACHIEVABLE GOALS



[ THE FINNING FORMULA ]  
TRANSFER THE FORMULA TO OTHER GEOGRAPHIES



# STRATEGIC ACQUISITIONS AROUND THE WORLD





We have long understood the importance of consistent action in achieving consistent results. The Finning Formula, summarized below, stands as a touchstone for critical decisions, and the clearest way to articulate our vision for the future. It has once again proven its worth in 2003 – whether applied across our operations or around the globe.

And as we move forward, we are proud to start from a very powerful place: We have a proven plan, strength of purpose, and a world of opportunity before us.

### **The Finning Formula**

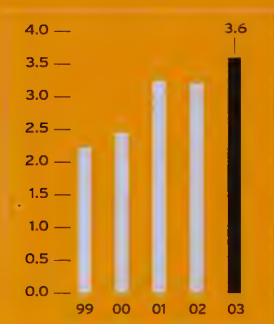
- **Leverage the CAT brand**
- **Command strong regional market shares**
- **Maximize parts, service and rental revenue**
- **Solve difficult customer problems**
- **Establish clear financial expectations throughout the organization**
- **Transfer the formula to other geographies**



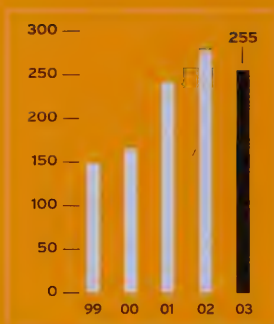
**FROM      HERE**

**WE CAN GO ANYWHERE**

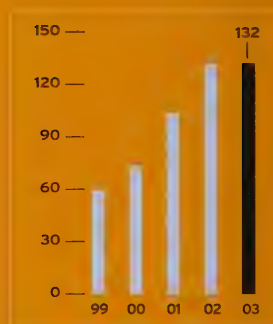
## PERFORMANCE AT A GLANCE



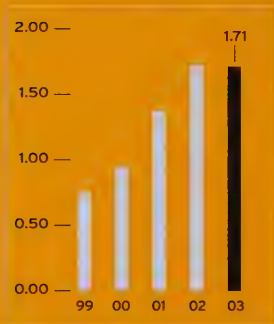
Revenue  
\$ (BILLIONS)



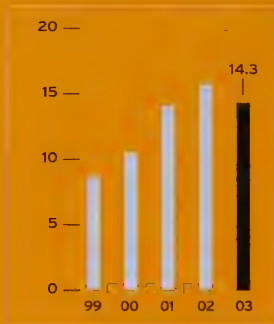
EBIT  
(Earnings Before Interest and Taxes)  
\$ (MILLIONS)



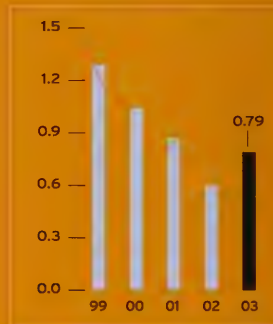
Net Income  
\$ (MILLIONS)



Basic EPS  
\$ (Earnings Per Share)



Return On Equity  
(PERCENTAGE)



Debt To Equity



Relative Price Performance  
Finning International Inc. vs. S&P/TSX Composite Index  
(DECEMBER 31, 1998 TO DECEMBER 31, 2003)

- Expanded South American operations from its base in Santiago, Chile, to the southern cone of South America with the acquisition of Caterpillar dealerships in Argentina, Uruguay and Bolivia. Expanded to a 20% share of the United Kingdom materials handling market with the \$213 million acquisition of Lex Harvey Limited.
- Completed its first-ever international financing with a successful 10-year unsecured 200-million Sterling Eurobond issue, rated BBB+ by Standard and Poor's and listed on the Luxembourg Stock Exchange.
- Extended market share in the Chilean copper mining industry with a \$55 million sale to Minera Escondida Limitada, controlled by BHP Billiton. This is the first Finning transaction under the five-year U.S.\$1.5 billion global alliance, announced in February 2003, between BHP Billiton and Caterpillar.
- Extended market share in the Chilean copper mining industry with a \$12 million equipment sale and \$84 million maintenance and repair contract with Minera El Tesoro, part of the Antofagasta Minerals Group.
- Secured the Company's first major transaction in Argentina since acquiring the dealership, a \$70 million equipment sale and a \$84 million five-year maintenance and repair contract with Barrick Gold Corporation's wholly-owned subsidiary, Minera Argentina Gold S.A., operator of the Veladero gold project in western Argentina.
- Expanded the Company's power systems rental business from the U.K. to continental Europe by joining with Caterpillar and nine other European CAT dealers to form Energyst Rental Solutions (SM).
- Consolidated market share in the Canadian oil sands with a \$30 million sale of six 797B Caterpillar trucks to Syncrude Canada Ltd.
- Completed construction of a landfill methane gas cogeneration powerhouse in Delta, B.C. in cooperation with its strategic partner, Maxim Power Corp., that will be operated and maintained by the Company under a multi-year agreement. This is one of several "green" projects Finning is pursuing around the world.
- Continued to deliver Caterpillar equipment to several of the largest infrastructure projects in the U.K., including the construction of the new £3.7 billion Terminal 5 at Heathrow airport.
- Completed the sale of a 20-machine \$10-million package of Caterpillar equipment to one of British Columbia's leading private logging contractors. The transaction was the largest single forestry equipment sale to an independent logging contractor in Finning's 70 years of operation.
- Continued the consolidation of the U.K. equipment rental market by Hewden Stuart with the \$2.2 million acquisition of Blandin Light Plant Limited ("Blandin"), an equipment rental company located in Jersey, Channel Islands.
- Completed a \$30 million sale to Movitec, Cerro Alto and ICV, three large Chilean mining support contractors. Deliveries will take place from January 2004 to April 2004.

*Photo: CAT machine at Hayes Forest Services sorting yard, Port Alberni, B.C.*





**Our continuing pursuit of the fundamental business strategy that we call the "Finning Formula" has resulted in another strong year: a revenue increase in 2003 of 12.0% to a record \$3.6 billion and net earnings of \$132.0 million.**

**The Finning Formula has six simple tenets whose importance to the success of the Company cannot be understated. They are the principles that brought us here. And they are the base upon which we will build even greater accomplishments as we move ahead.**

#### **2003 PERFORMANCE**

Our record revenues and our net earnings in 2003 reflected solid performance in all aspects of our business.

#### **HIGHLIGHTS FROM THE PAST YEAR**

Our acquisitions of the Caterpillar dealerships in Argentina, Uruguay and Bolivia and of the Lex Harvey materials handling business in the United Kingdom have contributed to revenues and net earnings in the year. This is a testament to the quality of these assets and to the success of the first stage of their integration into the Company.

Commodity prices stimulated copper and gold production and mine development in South America and increased oil and gas drilling and oil sands mining development in Western Canada. We were able to conclude a number of significant equipment sales and service contracts in our operations in South America and Canada in 2003.

Overall demand for our products was strong in 2003, and remains strong: The Company's order book at December 31, 2003 was \$420 million, compared with \$300 million at December 31, 2002. Our core business performed even better than our reported net earnings suggest. Certain expenses not reflective of ongoing operations were incurred in 2003, the largest being \$22.1 million related to the implementation of the new DBSi computer software system at Finning (UK). Adjusting for these expenses, the normalized net earnings of the Company in 2003 increased 5.8% to \$135.0 million.

2003 also saw a strong appreciation of the Canadian dollar against the U.S. dollar and the pound Sterling, which affected our revenues and earnings when translated into Canadian dollars. Revenue in the U.K. from Finning (UK) and Hewden Stuart increased 8.8% in pounds Sterling (compared with 5.5% in Canadian dollars), while revenue in South America increased 42.9% in U.S. dollars (compared with 26.4% in Canadian dollars).

Had the Canadian dollar not appreciated during 2003, our reported consolidated earnings for the year would have been \$0.20 per share higher.

The Company considers good corporate governance to be an important factor in its ongoing success. In 2003, Finning was rated 1st and 4th by Canadian Business Magazine and the Globe and Mail respectively for its corporate governance. As part of our focus on corporate governance, we announced in January 2004 the appointment of Michael Waites to the Board of Directors and his appointment to the Audit Committee as its financial expert.

*Photo: CAT 950G Loader,  
Heathrow Terminal 5.*



**The Finning Formula.** We distilled our fundamental corporate strategy into the Finning Formula in order to convey clearly that the more we achieve in the present, the more opportunities we create for our future success. And that success, today and every day hereafter, begins with the firm application of the Formula's six tenets:

#### LEVERAGE THE CAT BRAND

We are fortunate to be associated with one of the most valued and recognized brands in the world. We are the largest CAT dealer in the world and we aspire to be the best. The opportunities we derive from Caterpillar increase every day, including new global alliances, improvements to the world's leading engine and equipment technology, and the addition of new product lines. Our implementation of Caterpillar's DBSi computer software system at Finning (UK) will bring significant business efficiencies in 2004 and the years ahead. Our adoption of the proven 6 Sigma process will also increase the efficiency of our operations. Opportunities to expand beyond our territorial dealerships in Western Canada, the U.K. and the Southern Cone of South America will depend on our performance in our existing markets.

#### COMMAND STRONG REGIONAL MARKET SHARES

Markets in which we can best apply our competitive advantages to grow and prosper become our core businesses, and in these we have either attained or pursue a 30% market share. We focus on our core businesses and grow these both internally and through acquisitions. The Lex Harvey acquisition is an example. It brought us a 20% share of the materials handling market in the U.K., a business that fits our core business strategy.

#### MAXIMIZE PARTS, SERVICE AND RENTAL REVENUE

Revenues from parts, service and rental have one thing in common that is critical to our business: they bring predictable recurring revenues and earnings to balance the cycles inherent in selling equipment and engines to resource and construction industries. Revenues from customer support services increased 8.9% in 2003 and revenue from equipment rental increased 10.3%. The gains in rental revenue in 2003 came from the Lex Harvey acquisition, internal growth in equipment rental across the Company and the growth of The CAT Rental Stores in Western Canada. Parts, service and rental contributed 78.3% of our gross profit in the year.

#### SOLVE DIFFICULT CUSTOMER PROBLEMS

Customers don't merely buy or rent equipment. They buy or rent solutions to help them make their businesses more effective. We combine our knowledge of the customer's business, the best equipment for the job and a financial and maintenance package that meets the customer's specific needs. One example in 2003 was our \$70 million equipment sale and \$84 million service contract with Barrick Gold Corporation's wholly-owned subsidiary in western Argentina. Other examples abound throughout the Company.



## ESTABLISH CLEAR FINANCIAL EXPECTATIONS THROUGHOUT THE ORGANIZATION

Superior performance can only be attained by everyone working together to pursue ambitious and achievable goals, and by continually measuring progress against those goals. Our three long-term financial objectives are 15% annual revenue and earnings growth, 20% return on equity, and a 30% share of all markets targeted as a core business. In 2003, our revenue grew by 12.0%, our return on equity was 14.3%, and we achieved 30% market share in most core businesses. We have in place strategies to reach these goals. When we accomplish these objectives across the board, it will be time to raise the bar higher.

# 15%

*Revenue and Earnings Growth*

# 20%

*Return on Equity*

# 30%

*Market Share*

## TRANSFER THE FORMULA TO OTHER GEOGRAPHIES

From its origins in British Columbia 70 years ago, Finning has grown by acquiring Caterpillar dealerships and related businesses in Western Canada, the U.K. and South America and by applying the business principles in these new territories that made the parent Company successful. But these acquisitions didn't only make the Company bigger, they also diversified the revenue stream to reduce the cyclical nature of the economies and the industries upon which the Company depended. In the future, we expect to continue this strategy.

In 2004, we believe the economies and key commodity prices in our dealership areas will continue to drive strong product demand. Internally, we are striving to bring increased value to our customers while improving the efficiency of our operations. We have dedicated this annual report to outlining the many and varied opportunities we expect to generate in 2004 and beyond.

Ultimately, our corporate strategies and the opportunities they generate are intended to increase value for our shareholders and sustain a safe and fulfilling work environment for our employees. I am confident we are achieving these objectives. I extend my gratitude to my fellow employees for their achievements and to the Board of Directors for its wisdom and guidance. Their collective efforts are responsible for much of our success to date, and have positioned us for great things to come. From here we can go anywhere.



**Douglas W.G. Whitehead**  
President and CEO  
March 26, 2004

**Nuestra continua dedicación a la estrategia fundamental de negocios que llamamos “La Fórmula Finning” ha traído como resultado otro año positivo: un incremento de ingresos en el 2003 del 12,0%, alcanzando un récord de \$3.6 mil millones, y ganancias netas de \$132,0 millones. La Fórmula Finning está compuesta por seis simples principios a los cuales se les debe otorgar la debida importancia con relación al éxito de la Compañía. Son los principios que nos han permitido llegar a este sitio, y los que forman la base sobre la cual seguiremos construyendo a medida que avanzamos.**

#### RENDIMIENTO EN EL 2003

Nuestros ingresos récord y nuestras ganancias netas en el 2003, reflejaron una gestión sólida en todos los aspectos del negocio.

#### DESTACABLES DEL ÚLTIMO AÑO

Nuestras adquisiciones de los representantes Caterpillar en Argentina, Uruguay y Bolivia, y de la empresa de manejo de materiales, Lex Harvey en el Reino Unido, contribuyeron a nuestros ingresos y ganancias netas del año. Esto demuestra la calidad de estos negocios y la exitosa integración de ellos a la Compañía en esta primera etapa.

Los precios de las materias primas estimularon la producción de cobre y oro y el desarrollo de proyectos mineros en Sudamérica, como también la actividad en las industrias de gas y petróleo en el oeste de Canadá. Fuimos capaces de concretar una cantidad de ventas importantes de equipos y contratos de mantención en nuestras operaciones en Sudamérica y Canadá en el 2003.

En general, la demanda por nuestros productos se mostró fuerte en el 2003, y la tendencia se ha mantenido. Al 31 de diciembre del 2003, el libro de órdenes de la Compañía fue de \$420 millones, comparado con \$300 millones en la misma fecha del 2002. Nuestro negocio principal obtuvo resultados aún más sólidos que lo que la cifra de ganancias netas indica. Algunos gastos no continuos se realizaron en el 2003, siendo el más importante la implementación del nuevo sistema computacional DBSi en Finning (Reino Unido), valorizado en \$22,1 millones. Ajustando por estos gastos no continuos, las ganancias netas normalizadas de la Compañía aumentaron en un 5,8% a \$135,0 millones.

Adicionalmente, el 2003 presencié el alza del dólar canadiense comparado con el dólar americano y la libra esterlina, lo cuál afectó nuestros ingresos y ganancias traducidos a dólares canadienses. Los ingresos de Finning en el Reino Unido y Hewden Stuart incrementaron

un 8,8% en libras esterlinas (comparado con un 5,5% en dólares canadienses), mientras que los ingresos en Sudamérica aumentaron un 42,9% en dólares americanos (comparado con 26,4% en dólares canadienses). Si el dólar canadiense no hubiera subido durante el 2003, nuestras ganancias consolidadas por el año hubiesen sido \$0,20 por acción adicional.

La Compañía considera que la buena gobernación corporativa es un factor importante en su éxito continuo. En el 2003, Finning fue nombrado en primer y cuarto lugar en un ranking de gobernación corporativa por las revistas Canadian Business Magazine y por el Globe and Mail, respectivamente. Como parte de nuestra preocupación por este tema, Michael Waites fue nombrado al Directorio y al Comité de Auditoría en enero del 2004, como experto en asuntos financieros.

*Foto: Camión CAT 797B en la mina de cobre Escondida, en Chile.*





## La Fórmula Finning: Integramos nuestra estrategia corporativa fundamental a la Formula Finning para comunicar claramente que los logros del presente, crearán más oportunidades para un futuro exitoso. Ese éxito, de ahora en adelante, empieza con la firme aplicación de los seis principios de la Fórmula:

### POTENCIAR LA MARCA CAT

Tenemos la ventaja de estar asociados con una de las marcas más reconocidas y valoradas del planeta. Somos el principal representante de CAT en el mundo y aspiramos a ser el mejor. Las oportunidades que nos brinda Caterpillar crecen diariamente, incluyendo nuevas alianzas globales, perfeccionamiento de tecnología de punta para motores y equipos, y la incorporación de nuevas líneas de productos. La puesta en marcha del sistema de computación DBSi de Caterpillar en Finning Reino Unido significará más eficiencia en nuestro negocio durante el presente año como en el futuro. Adicionalmente, la adopción del comprobado proceso 6 Sigma mejorará la eficiencia en todas nuestras operaciones. La oportunidad de extender nuestro territorio más allá del oeste de Canadá, Reino Unido, y el Cono Sur de Sudamérica dependerá de los resultados que obtengamos en nuestros mercados actuales.

### DOMINAR UN PORCENTAJE SUBSTANCIAL DE LOS MERCADOS REGIONALES

Los mercados en los cuales aplicamos mejor nuestra ventaja competitiva para prosperar y crecer, se convierten en nuestros principales negocios, y hemos logrado o apuntado a una participación del 30% en ellos. Ponemos énfasis en nuestros principales negocios y los hacemos crecer en forma interna y a través de adquisiciones. La compra de Lex Harvey es un buen ejemplo, ya que nos dio un 20% del mercado de manejo de materiales en el Reino Unido, un negocio que complementa nuestra estrategia corporativa.

### MAXIMIZAR LOS INGRESOS DE REPUESTOS, SERVICIO Y ALQUILER

Los ingresos que resultan de repuestos, servicio y alquiler, tienen en común un aspecto que es crítico para nuestro negocio: aportan predecibles y constantes ingresos y ganancias que equilibran la naturaleza cíclica de venta de equipos y motores a industrias de recursos naturales y construcción. Los ingresos derivados de soporte al cliente crecieron un 8,9% en 2003 e ingresos de alquiler de equipos incrementaron un 10,3%. Los aumentos en las ventas

de alquiler en el 2003 fueron consecuencia de la adquisición de Lex Harvey, el aumento general de alquiler de equipos en todas las operaciones, y el crecimiento de los CAT Rental Stores en el oeste de Canadá. Repuestos, servicio y alquiler contribuyeron en un 78,3% a nuestra ganancia bruta en el año.

### SOLUCIONAR LAS DIFICULTADES DEL CLIENTE

Los clientes no sólo compran y alquilan equipos sino que compran y alquilan soluciones para manejar sus negocios más eficientemente. Combinamos nuestro conocimiento del negocio, el mejor equipo, financiamiento y un plan de mantención específicamente para las necesidades de cada cliente. Un ejemplo en 2003, fue la venta de equipos por \$70 millones y un contrato de mantención por \$84 millones a la subsidiaria de Barrick Gold Corporation en el oeste de Argentina. Existen múltiples ejemplos similares en toda la Compañía.



**ESTABLECER EXPECTATIVAS  
FINANCIERAS CLARAS  
EN TODA LA ORGANIZACION**

Un rendimiento superior sólo se puede obtener con un esfuerzo común para lograr objetivos ambiciosos y alcanzables, continuamente midiendo el progreso comparándolo con ellos. Nuestros tres objetivos financieros de largo plazo son un 15% anual de crecimiento de ingresos y ganancias, un 20% anual de retorno sobre capital, y una participación de mercado de un 30% en aquellos definidos como mercados principales. En el 2003, nuestros ingresos crecieron en un 12%, el retorno sobre capital fue de 14,3%, y logramos una participación de mercado del 30% en casi todos los mercados principales. Contamos con estrategias para alcanzar estas metas, y cuando logremos hacerlo en toda la compañía, será el momento de elevar la vara más alta.

**15%**

*crecimiento de ingresos y ganancias*

**20%**

*retorno sobre capital*

**30%**

*participación de mercado*

**TRANSFERIR LA FORMULA  
A OTRAS REGIONES**

Desde sus orígenes hace 70 años en la Columbia Británica, Finning ha crecido a través de la compra de representaciones Caterpillar y otros negocios relacionados en el oeste de Canadá, el Reino Unido y Sudamérica y por aplicar los principios que hicieron exitosa a la empresa madre en estos nuevos territorios. Esas adquisiciones no sólo expandieron, sino que diversificaron el flujo de ingresos de la Compañía, reduciendo la naturaleza cíclica de las economías e industrias de las que dependía. En el futuro esperamos continuar con esta estrategia.

Creemos que en el 2004, las economías y los precios de materias primas en los territorios en donde operamos continuarán manteniendo una fuerte demanda para productos. Nos esforzamos en entregar mayor valor a nuestros clientes, al

mismo tiempo que mejoramos la eficiencia de nuestras operaciones. Hemos dedicado este informe anual a mostrar las múltiples y variadas oportunidades que esperamos generar en el 2004 como también en el futuro.

En el fondo, nuestras estrategias corporativas y las oportunidades que ellas generan apuntan a incrementar los beneficios para nuestros accionistas y mantener un ambiente laboral seguro y satisfactorio para nuestros empleados. Estoy convencido que estamos logrando estos objetivos. Extiendo mi gratitud a mis compañeros de trabajo por sus logros y a los integrantes del Directorio por su sabiduría y dirección. Sus esfuerzos conjuntos son responsables de mucho de nuestro éxito actual que nos ha posicionado en un buen lugar para enfrentar el futuro. Tenemos un horizonte sin límites.



**Douglas W. G. Whitehead**  
Presidente y CEO  
26 de marzo, 2004

**Finning began as the Caterpillar dealer in British Columbia in 1933 and has since acquired Canadian dealerships in Yukon Territory, Alberta, the Northwest Territories and a portion of the Territory of Nunavut. The Company services its Canadian dealership territory through its division, Finning (Canada). Finning (Canada) has 41 branches and 2,717 employees with its head office located in Edmonton, Alberta.**



**Ian M. Reid**  
President, Finning (Canada)

*"Our many opportunities come from having a track record of providing customers with solutions that make their businesses better, whether on a huge scale in the oil sands or a smaller scale through our CAT rental stores."*

#### FINANCIAL PERFORMANCE

Total revenue was \$1,456.3 million, compared with \$1,269.3 million in 2002, contributing 40.5% of Finning International's \$3,593.3 million total revenue.

#### HIGHLIGHTS

Maintained our strong 70% share in the Canadian oil sands mining equipment market with a \$30 million sale of six 797B trucks, the largest of their kind in the world, to Syncrude Canada Ltd.

Constructed a landfill methane gas cogeneration powerhouse in Delta, B.C. that will be operated and maintained by the Company under a multi-year agreement.

Completed the sale of a 20-machine \$10-million package of Caterpillar equipment to one of British Columbia's leading private logging contractors. The transaction was the largest single forestry equipment sale to an independent logging contractor in Finning's 70 years of operation.

Oil Sands Mine Proposals	Company	Cost (\$ billion)	Timeline
1. Syncrude Stage III	Syncrude Canada Ltd.	\$5.7	Complete 2005
2. Syncrude Stage IV	Syncrude Canada Ltd.	NA	2005 - 2010
3. Horizon	Canadian Natural Resources Ltd.	\$8.5	Over a decade starting - 2003
4. Northern Lights	Synenco Energy Inc.	\$4.5	2008 - 2010
5. Jackpine	Shell Canada, Chevron Canada, Western Oil Sands	\$2	NA
6. Virgin	BA Energy Inc.	\$1	2006
7. Kearl Lake	Imperial Oil	\$5 - 8	2012

*Photo: CAT Rental Store in Fort McMurray, Alberta.*







#### OPERATIONS

##### **Oil Sands mining**

At the Athabasca Oil Sands Project (AOSP), a mining, extraction and upgrading development that produces 155,000 barrels of bitumen per day, the Company has established what it considers its model for future opportunities in this large and growing market. In late 2002, the Company concluded a \$133 million sale with Albian Sands Energy Inc., operator of AOSP's oil sands mine at Muskeg River, for all mining machines, trucks and support equipment. The Company also signed a \$150

million five-year customer service contract. In 2003, Finning established a 60-person branch operation on site to repair and maintain all mine site equipment and to warehouse parts.

##### **Oil and gas**

Drilling activity in western Canada, a major indicator of industry growth, is forecast to be only marginally lower in 2004 than the record pace achieved in 2003. Longer term, the companies proposing a \$4 billion natural gas pipeline from Canada's Mackenzie River Delta have reported they are on track for completion and begin delivery of

gas to Canadian and U.S. markets before the end of the decade.

Finning's opportunity is represented by mobile earthmoving equipment used in exploration and preparation of drill sites and pipeline routes; excavators and pipe-layers used in gathering and transmission systems; diesel and natural gas engines used in operation of drill rigs, pumps and compressors; and electrical sets for camp power generation.

##### **Solving problems in the forest industry**

The Company has a relationship with Canfor Corporation, the largest producer of softwood





lumber and one of the largest market pulp producers in Canada, that demonstrates how solving a customer's problems can bring opportunities in the western Canadian forest products industry.

In 1997, Canfor had an aged equipment fleet, high repair and maintenance costs, and machine breakdowns resulting in lost productivity. Finning's solution was called "Power by the Hour" and provided Canfor with an equipment replacement, and a repair and maintenance strategy.

Finning leases equipment to Canfor, provides preventive maintenance and replaces aging

parts before they fail. Finning also provides extra machines when needed in emergencies or at peak operating periods, eliminating the need for Canfor to have surplus machines sitting idle to cover downtime or peak contingencies.

Today the relationship is evolving to better align with current business realities, more flexible lease payment schedules and application of used machines instead of new machines where appropriate. Today, 148 machines are in place at eighteen Canfor locations in British Columbia.

#### **Rental**

After several years of leading the heavy construction equipment rental market, the Company is expanding "The CAT Rental Store" network to become the leader in small equipment rental to contractors, industrial plants and commercial operations. During 2003, thirteen new CAT Rental Stores were opened. At December 31, 2003, there were 25 CAT Rental Stores in British Columbia and Alberta, and the Company's objective is to achieve market leadership in this segment.

*"The CAT Rental Store"*  
Small equipment rental

**Finning acquired two Caterpillar dealerships in the U.K. in 1983 and a third in 1997 to become the Caterpillar dealer for England, Scotland and Wales operated under Finning (UK) Ltd. Finning (UK) is also the distributor of Caterpillar-branded Sabre Perkins marine power engines for England, Wales and Ireland and Caterpillar-branded MaK marine engines for the U.K. and Ireland.**



**Stephen Mallett**  
Managing Director, Finning (UK) Ltd.

*"We have unlimited opportunity in the U.K. to increase market share as we continue to add value for customers and solve their problems by working with Caterpillar and applying the Finning process."*

Finning (UK) acquired the Finn pave distribution business in 2001, now operated as its specialist surfacing equipment division. In 2003, Finning (UK) acquired the majority of the assets of Lex Harvey Limited, the largest independent materials handling company in the U.K. Finning (UK) has 22 branches and 2,387 employees with its head office located in Cannock, England.

#### FINANCIAL PERFORMANCE

Total revenue was \$934.2 million, compared with \$828.2 million in 2002, contributing 26.0% of Finning International's \$3,593.3 million total revenue. In local currency, Finning (UK)'s 2003 total revenue was £409.2 million, compared with £351.7 million in 2002.

#### HIGHLIGHTS

Expanded to a 20% share of the U.K. materials handling market with the \$213 million acquisition of Lex Harvey Limited. The acquisition contributed revenues for the seven-month period since the acquisition of \$109.4 million to Finning (UK) in 2003, 11.7% of total Finning (UK) revenues.

Continued to deliver Caterpillar equipment to several of the largest infrastructure projects in the U.K., including the construction of the new £3.7 billion Terminal 5 at Heathrow airport. Approximately 75% of all construction equipment at Heathrow's Terminal 5 is Caterpillar. Finning customers on the project include C.A. Blackwell, Laing O'Rourke and its Select Plant Hire division, and Foster Yeoman Limited.

Received an order from AMPL, the plant hire division of Alfred McAlpine PLC, to supply 38

pieces of new Caterpillar equipment, which will be used on the A1M highway project north of Leeds.

#### OPPORTUNITIES

##### Materials handling

The acquisition and integration of Lex Harvey into Finning (UK)'s materials handling business will result in significant synergies in administration, facilities, personnel and inventory management.

The Materials Handling Division has 15,000 lift trucks on long-term rental and provides service and backup on a further 12,000 customer-owned units. With more than 12,000 customers and a rapidly growing short-term rental fleet of just under 3,000 units, the Materials Handling Division helps to provide stability and predictability to Finning (UK) revenues.

Finning (UK) has the only centralized materials handling business in the U.K. and has increased market share in each of the previous four years. The new Finning National Materials Handling Centre, called Orbital 7, is 140,000 square feet of offices and shops dedicated to building custom lift trucks for special customer needs in three weeks from order to delivery.



Maintenance is performed by more than 700 engineers at Orbital 7 and 400 resident locations throughout the U.K. The Company provides next-day parts delivery on more than 18,000 items and guarantees that a locally-based engineer is available to provide on-site repairs whenever necessary.

#### **Economic growth**

The U.K. government forecasts Real Gross Domestic Product growth of 2.5% in 2004, compared with 2% in 2003 and 1.7% in 2002. Construction will comprise a strong component of this growth, providing an opportunity for Finning to increase market share in all its sectors.

#### **Aggregates market growth**

The U.K. government's public and private transport expenditures of £180 billion over 10 years to repair and expand the country's transportation infrastructure is

proceeding on plan. Aggregates (rock, sand and gravel) are used in the building of road and rail beds, a market in which Finning has a 60% share.

#### **ISO CERTIFICATION**

Finning (UK) was the first in the industry in the U.K. to be certified and registered to ISO 9001 standards for quality. In 2003, this was successfully extended to the Company's Finn-pave subsidiary and the Lex Harvey business. This demonstrates to customers that the Company is committed to fulfilling their quality needs, meeting applicable regulatory requirements, and enhancing customer satisfaction.

In June 2003, Lloyds Register Quality Assurance also certified and registered the Company's environmental management system under the environmental standard ISO 14001. This

demonstrates the Company is managing its environmental challenges in a responsible way and is achieving continuous improvement in environmental performance.

#### **NEW DBSI SYSTEM**

In early 2004, Finning (UK) installed the customized DBSi computer software system, designed specifically for Caterpillar dealers. DBSi addresses several tactical areas that will increase the Company's opportunities, such as improved supply chain management, greater product customization, improved cost controls and asset utilization, and enhanced customer relationship management and service.

*Photo: CAT equipment working on site at Heathrow Terminal 5*



**Hewden, acquired by Finning International in 2001, is the leading national equipment rental company in the United Kingdom, with 317 locations and 3,804 employees. Hewden provides equipment rental and contract management services to key businesses in virtually every sector.**



Nicholas B. Lloyd  
Managing Director, Hewden

*"Our size and national profile give us the opportunity to grow our business by focusing on being a 'one-stop-shop' for companies that need equipment but also want to contract out the management, operation and/or maintenance of their fleets."*

Hewden customers can call on a comprehensive range of equipment and services, including Caterpillar and other leading construction equipment brands. Hewden's total customer offer includes plant, tools, powered access, cranes, power generation, accommodation and hoists, allowing the Company to offer customers a unique One-Stop-Shop capability.

#### FINANCIAL PERFORMANCE

Total revenue was \$640.8 million, compared with \$665.3 million in 2002, contributing 17.9% of Finning International's \$3,593.3 million total revenue. In local currency, Hewden's 2003 total revenue was £280.5 million, compared with £281.9 million in 2002.

#### HIGHLIGHTS

Continued its consolidation of the U.K. equipment rental market with the \$2.2 million acquisition of Blandin Light Plant Limited, an equipment rental company located in Jersey, Channel Islands, U.K.

Opened an "on-site" Hire Shop at the Royal Bank of Scotland World Headquarters construction site at Gogarburn, Edinburgh, the largest construction project in Scotland. The site is managed by Hewden's long-standing customer, Mace Limited. Eventually 2,500 employees and 200 contractors will be able to source all their tools and equipment from Hewden at this £400 million, 78-acre project.

Chosen as the preferred equipment rental supplier for three new building projects in London with a combined cost of £1.2 billion to be built by Multiplex Constructions Limited. The three projects are the new National Stadium at Wembley, the West

India Quay waterside development and the White City retail development that will be the largest shopping mall in Europe. The Wembley stadium and the West India Quay will be completed in mid-2005, the White City mall in late 2006.

#### OPPORTUNITIES

##### Economic conditions

Hewden's business is driven by construction activity, which grew by 4% in 2003 and is expected to grow by a similar amount in 2004. This strong performance has prompted equipment manufacturers from Europe and elsewhere, where economic prospects are slower, to ship their surplus equipment into the U.K. Consequently, the U.K. equipment rental market was very competitive in 2003 and is expected to remain so in 2004, characterized by overcapacity and downward pressure on prices.

These conditions bring opportunities for Hewden across several fronts:

- ▶ Since Hewden's objective is to increase its market share to 30%, it can grow by acquiring key companies that are attractively priced. The acquisition of Blandin is an example.





- Hewden's size and national profile give it a competitive advantage over smaller companies as a "one-stop" supplier of a wide array of equipment and services for customers ranging from small to large industrial and construction companies.
- In 2004, Hewden will be reviewing all its operations to reduce its cost base and enhance service delivery.

#### **Sole supply contracts**

Hewden has sole supply contracts with large construction companies to supply equipment, often including operators, needed at specific stages of large projects, and with large and medium-sized industrial companies to provide, operate and maintain their equipment fleets on site. These contracts benefit customers by providing a single point of contact for equipment rental, online

monitoring of equipment performance and online all-inclusive invoicing.

#### **Construction contracts**

Hewden's sole supply contract construction customers include:

- The Wates Group, one of the U.K.'s largest, privately owned construction and development companies;
- Kelsey Roofing Special Projects, the leading stadium and specialist roofing contractor in the U.K.; and
- Birse plc, one of the U.K.'s leading development and engineering companies.

#### **Industrial contracts**

Hewden's sole supply industrial fleet customers include:

- British Petroleum, where Hewden operates 24 hours a day and seven days a week at three refinery complexes, Grangemouth, Hull and Coryton;

- Fleet Support Ltd., Royal Navy Base, Portsmouth, where Hewden has been providing full equipment services in a highly sensitive and secure environment "24 by 7" since 1998;
- Environment Agency, where Hewden supplies general plant and pumps in several regions;
- Amey plc, which rationalized its supply chain from several hundred suppliers to four, one of which was Hewden; and
- Tarmac, a subsidiary of Anglo American; the global mining and natural resource company, which rationalized its supply chain from more than 2000 suppliers to three, including Hewden.

*Photo: Hewden plant hire machine at a railway construction site.*

Finning has been the Caterpillar dealership for Chile since 1993. In 2003, the Company expanded its operations in South America through the acquisition of the CAT dealerships in Argentina, Bolivia and Uruguay, bringing its total number of locations across the Southern Cone to 37. Through a combined workforce of 2,456 employees, the Company delivers products and services to key industries in this rapidly developing region of the globe.



Brian C. Bell  
President, Finning South America

*"We will capitalize upon the opportunities we have made for the Company in the Southern Cone of South America by applying the Finning Formula that has made Finning a successful company. That means structuring the Company and empowering our people to ensure we are providing unmatched value to our customers."*

#### FINANCIAL PERFORMANCE

Total revenue was \$562.0 million, compared with \$444.6 million in 2002, contributing 15.6% of Finning International's \$3,593.3 million total revenue. In U.S. dollars, the basis for most of the business in Finning South America, 2003 total revenue was U.S.\$406.0 million, compared with U.S.\$284.2 million in 2002.

#### HIGHLIGHTS

Completed the acquisitions of Macrossa Del Plata S.A. and General Machinery Co. S.A., the Caterpillar dealerships in Argentina and Uruguay respectively, in January 2003. In April 2003, Finning completed its acquisition of Matreq S.A., the Caterpillar dealership in Bolivia.

Completed a \$55 million 20-piece Caterpillar equipment sale to Minera Escondida Limitada of Chile, controlled by BHP Billiton. This was the first Finning transaction under the five-year U.S.\$1.5 billion global alliance, announced in February 2003, between BHP Billiton and Caterpillar.

Completed the first major transaction in Argentina since the acquisition of the dealership,

a \$70 million equipment sale and a \$84 million five-year maintenance and repair contract with Barrick Gold Corporation's wholly-owned subsidiary, Minera Argentina Gold S.A., operator of the Veladero Gold project in western Argentina.

Completed a \$96 million equipment sale and maintenance contract to Minera El Tesoro, part of the Antofagasta Minerals Group. The El Tesoro mine is also the first mine in Chile to install a complete CAT MineStar System, a wireless link between mining machines in the pit and mine managers in the office, enabling real time performance monitoring.

Completed a \$30 million sale of 25 pieces of Caterpillar equipment to Movitec, Cerro Alto & Ingeniería Civil Vicente (ICV), three large Chilean mining support contractors. Deliveries will take place from January 2004 to April 2004. Mining companies are increasingly turning to support contractors to develop mine sites in Chile. Typically, 80% of the fleets of these contractors are CAT products.

*Photo: CAT 325 excavator working on new Argentine subway line*





**OPPORTUNITIES****Economic conditions and commodity prices**

In Chile, the stability and strength of the economy will have a positive impact on the Company's opportunities. Real Gross Domestic Product (GDP) grew by 3.3% in 2003 and is forecast to grow by 4.5% in 2004. Mining production and new development has been stimulated by the strongest copper prices since 1997 and the strongest gold prices since the mid-1990s. The United States - Chile Free Trade Agreement implemented January 1, 2004 is an additional significant stimulus.

In Argentina, business opportunities are buoyed as the economy continues to recover and as inflation declines. Real GDP grew by 7.8% in 2003, after declining 10.9% in 2002 and 4.4% in 2001. This recovery is forecast to continue in 2004 with real GDP forecast to increase by 4.0%. It is also significant that consumer prices are forecast to increase 7.7% in 2004, after increases of 14.3% in 2003 and 25.9% in 2002, according to the International Monetary Fund.

**Synergies from integration**

Effective January 1, 2004, Finning South America has reorganized away from four geographically defined business units to three business units defined by markets - mining, machinery and power systems. Management believes this new structure optimizes the Company's capacity to meet customers' needs and provide market-specific expertise while capturing synergies, such as reducing operating expenses and inventory duplication.

**New markets from integration**

In addition to the \$70 million equipment sale and \$84 million five-year maintenance and repair contract with Barrick Gold Corporation's project at Veladero near the Chile-Argentina border, Barrick has announced plans to develop a larger ore body nearby at Pascua-Lama.

One of the brightest sectors of the recovering Argentinean economy is the production and export of agricultural products. Finning South America is well positioned to participate in this recovery through international agricultural machinery manufacturer AGCO Corporation. AGCO acquired the Challenger line of agricultural equipment from Caterpillar and is introducing the line in South America. Finning is now the sole Challenger sales and service dealer for Argentina, Bolivia, Chile and Uruguay.

The recovery in Argentina is also stimulating construction of infrastructure (roads, housing and hydro-electric dams) and increased oil and gas drilling. The Company expects its general machinery, engines and generators will compete strongly in these markets.

In Bolivia, political uncertainty is postponing development of the country's large oil and gas reserves and urgently needed roads, power and other infrastructure. Bolivia will represent a significant opportunity for Finning South America when political stability is restored and economic activity encouraged.

## OTHER OPPORTUNITIES

Finning South America has a commanding market share in the Chilean mining industry. Management believes there are several opportunities to grow revenue in this region.

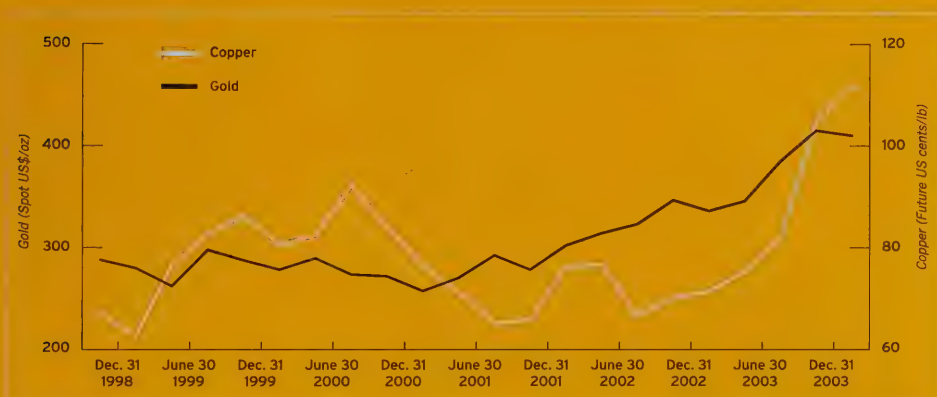
- The U.S.\$1.5 billion global alliance between Caterpillar and BHP Billiton signed in February 2003 and the subsequent \$55 million sale from Finning South America to Minera Escondida Limitada of Chile, controlled by

BHP Billiton, has alerted other mining companies to the economic benefits that an alliance with Caterpillar and Finning could bring them.

- Strong copper and gold prices will ensure the development of a large number of mining projects in Chile and Argentina, now in various stages of development.
- The strong mining recovery is increasing spending throughout Chile on infrastructure and general construction. Finning

South America has a 32% share of the construction market and is endeavouring to gain a larger share of that growing market.

- The CAT Rental Stores now operate in Santiago and Calama, Chile, and in Buenos Aires, Argentina. The Company expects to open several new CAT Rental stores over the next two to three years. In Santiago, the CAT Rental store is supplying construction equipment for a major highway project being built across the city.



Gold and Copper Prices

	2001	2002	2003	2004
Argentina	(4.4)%	(10.9)%	7.8%	4.0%
Chile	3.1%	2.1%	3.3%	4.5%
Uruguay	(3.3)%	(10.8)%	(1.0)%	4.5%
Bolivia		2.7%	1.0%	3.2%

Real GDP Growth

	Owner	Metal	Cost (US \$ Million)	Start-Up
1. Spence	BHP Billiton	copper	\$ 800	2004/5
2. Veladero	Barrick	gold	\$ 500	2004
3. Refugio	Kinross/Bema	gold	\$ 200	2004
4. Cerro Casale	Placer Dome	gold, copper	\$1,430	2006
5. Pascua-Lama	Barrick	gold, silver	\$1,200	2006

Mine Proposals

**Finning ha sido el representante de Caterpillar en Chile desde 1993. En 2003, la Compañía expandió sus operaciones en Sudamérica con la adquisición de los representantes CAT en Argentina, Bolivia y Uruguay, llevando su cobertura en el Cono Sur a 37 localidades. A través de 2456 empleados, la Compañía provee productos y servicios a las principales industrias de una región en pleno desarrollo.**

*"Aprovecharemos las oportunidades que hemos abierto gracias a la expansión en el Cono Sur, aplicando la fórmula Finning, que ha hecho de Finning una compañía exitosa. Eso significa estructurarlos y habilitar a nuestra gente para asegurar que proveemos beneficios incomparables a nuestros clientes."*

**Brian C. Bell**  
Presidente de Finning Sudamérica

#### RENDIMIENTO FINANCIERO

El ingreso total fue de \$562,0 millones, comparado con \$444,6 millones en 2002, contribuyendo el 15,6% de los \$3593,3 millones de ingreso total de Finning International. En dólares americanos, la base para la mayor parte del negocio de Finning Sudamérica, ingreso total fue US \$406 millones en 2003, comparado con US \$284,2 millones en 2002.

#### ACONTECIMIENTOS DESTACABLES

Se concretaron las adquisiciones de Macross Del Plata S.A. y General Machinery Co. S.A., los representantes de Caterpillar en Argentina y Uruguay respectivamente, en enero de 2003. En abril de 2003, Finning completó la adquisición de Matreq S.A., la representante de Caterpillar en Bolivia.

Se concretó la venta por \$55 millones por un paquete de 20 equipos a Minera Escondida Limitada de Chile, controlada por BHP Billiton. Esta fue la primera transacción de Finning bajo la alianza global por cinco años entre BHP Billiton y Caterpillar, valorizada en \$1,5 mil millones de dólares americanos, anunciada en febrero del 2003.

Se concretó la primera gran transacción en Argentina desde la adquisición de la representación, una venta de equipos por \$70 millones y un contrato de mantención y reparación por cinco años valorizado en \$84 millones con Minera Argentina Gold S.A., subsidiaria de Barrick Gold Corporation, y responsable del proyecto Veladero Gold en el oeste de Argentina.

Se concretó la venta de equipos y un contrato de mantención

y reparación por \$96 millones a Minera El Tesoro, perteneciente a Antofagasta Minerals Group. Adicionalmente, El Tesoro es la primera mina en Chile en instalar el sistema completo MineStar de CAT, tecnología inalámbrica entre las máquinas mineras y las oficinas de operación, lo que permite monitorear en tiempo real el rendimiento de cada equipo.

Se concretó la venta por \$30 millones de 25 equipos Caterpillar a Movitec, Ingeniería Civil Vicente (ICV) y Cerro Alto, tres grandes contratistas chilenos de apoyo minero. Las entregas se efectuarán entre enero y abril de 2004. Las compañías mineras están recurriendo cada vez más a contratistas de apoyo para desarrollar el trabajo minero en Chile. Típicamente, el 80% de las flotas de estos contratistas son compuestas por productos CAT.

#### OPORTUNIDADES

##### Condiciones económicas y precios de materia prima

En Chile, la estabilidad y solidez de la economía tendrá un impacto positivo en las oportunidades para la Compañía. El Producto Interno Bruto (PIB) real creció en un 3,3% en 2003 y se estima que crecerá un 4,5% en 2004. La producción minera y nuevos proyectos se han



estimulado con el precio más alto, tanto del cobre desde 1997 como del oro desde mediados de los años noventa. El Tratado de Libre Comercio entre Estados Unidos y Chile, implementado el 1º de enero de 2004, es un estímulo adicional importante.

En Argentina, las oportunidades de negocios emergen con la continua recuperación de la economía y la declinación de la inflación. El PIB real creció en un 7,8% en 2003, después de bajas del 10,9% en 2002 y 4,4% en 2001. Se estima que esta recuperación continuará durante 2004 con el PIB real pronosticado a subir un 4,0%. Significante es la estimación que el Índice de Precios al Consumidor (IPC) incrementa en un 7,7% en 2004, después de alzas de 14,3% en 2003 y 25,9% en 2002, según el Fondo Monetario Internacional.

#### **Sinergia en la integración**

A partir del 1º de enero de 2004, Finning Sudamérica se ha reorganizado de cuatro unidades de negocios definidas por territorios geográficos, a tres unidades de negocios definidas por mercados: minería, maquinaria y power systems. La gerencia cree que a través de esta nueva estructura se favorecerá la capacidad de la Compañía para satisfacer las necesidades de los clientes y proveer soluciones específicas a cada mercado y a la vez, captar sinergias, como reducir costos de operación y la duplicidad de inventario.

#### **Integración y nuevos mercados**

Sumado a la venta de equipos por \$70 millones y el contrato por cinco años de mantención y reparación por \$84 millones al

proyecto de Barrick Gold Corporation en Veladero, cerca de la frontera de Chile y Argentina, Barrick ha anunciado planes para desarrollar un yacimiento mineral mayor llamado, Pascua-Lama.

Uno de los sectores más sobresalientes de la recuperación económica en Argentina es la producción y exportación de productos agrícolas. Finning Sudamérica está bien situada para participar en ésta recuperación a través del fabricante internacional de maquinaria agrícola AGCO Corporation. Esta última adquirió la línea de equipos agrícolas Challenger de Caterpillar y está introduciendo la línea en Sudamérica. A partir de este momento, Finning es el único representante de ventas y servicio Challenger en Argentina, Bolivia, Chile y Uruguay.

Adicionalmente, la recuperación económica en Argentina está estimulando la construcción de infraestructura (caminos, viviendas, represas hidroeléctricas) y el desarrollo de yacimientos de gas y petróleo. La Compañía espera que su maquinaria, sus motores y generadores compitan exitosamente en esos mercados.

En Bolivia, la incertidumbre política ha aplazado el desarrollo de sus grandes reservas de gas y petróleo, así como la construcción de caminos, generación eléctrica y otras infraestructuras. Bolivia representará una gran oportunidad para Finning Sudamérica cuando el clima político y la actividad económica se establezcan.

#### **OTRAS OPORTUNIDADES**

Finning Sudamérica cuenta con una dominante participación de mercado en la industria minera chilena. La Compañía cree que hay varias oportunidades de aumentar nuestros ingresos en esta región.

- La alianza global de \$1,5 mil millones de dólares americanos entre Caterpillar y BHP Billiton, firmada en febrero de 2003, y la venta subsiguiente por \$55 millones por Finning Sudamérica a Minera Escondida Limitada de Chile, controlada por BHP Billiton, han alertado a otras compañías mineras de los beneficios económicos que una alianza con Caterpillar y Finning puede significar.
- Precios altos para el cobre y el oro asegurarán el desarrollo de un gran número de proyectos mineros en Chile y Argentina, actualmente en distintas etapas de desarrollo.
- La gran recuperación minera en Chile ha fomentado la inversión en infraestructura y construcción en todo el país. Finning Sudamérica cuenta con el 32% de participación en el mercado de la construcción y está procurando obtener una mayor participación en este creciente mercado.
- CAT Rental Stores opera en las ciudades de Santiago y Calama en Chile; y en Buenos Aires, en Argentina. Finning Sudamérica tiene planes de abrir varios CAT Rental Stores en los próximos dos o tres años. En Santiago, CAT Rental Store abastece de equipos para proyectos de gran envergadura, como la construcción de carreteras en la ciudad.

**Finning Power Systems was formed in 2001 to provide a Company-wide focus on sales and service opportunities for engines manufactured by Caterpillar and its subsidiary companies. Power Systems provides customers with existing and new applications in electric power generation, marine (including pleasure craft and ocean-going vessels), industrial applications, on-highway trucks, and the oil and gas industry (drilling, gas compression, mud pumps).**



Paul J.C. Jarvis  
President, Power Systems

*"Our objective is to increase Power Systems revenues to \$1 billion in five years. We need to transition from good to great. In order to do that, we need to think 'outside the box' and create opportunities by being entrepreneurial and innovative."*

#### FINANCIAL PERFORMANCE

The Group's financial results are reported within the country operation in which they originate. Revenue from new power and energy systems sales was \$262.4 million, compared with \$192.0 million in 2002, contributing 7.3% of Finning International's \$3,593.3 million total revenue.

#### HIGHLIGHTS

Expanded the scope of the Company's power systems European rental market from the U.K. to continental Europe by joining with Caterpillar and nine other European CAT dealers to form Energyst Rental Solutions (SM). The transaction involved Finning (UK) selling its power systems rental business to Energyst for \$34 million, while Finning International invested \$6.7 million for a 15.17% ownership interest in Energyst. Energyst intends to become the industry leader by providing the most innovative and responsive temporary energy solutions.

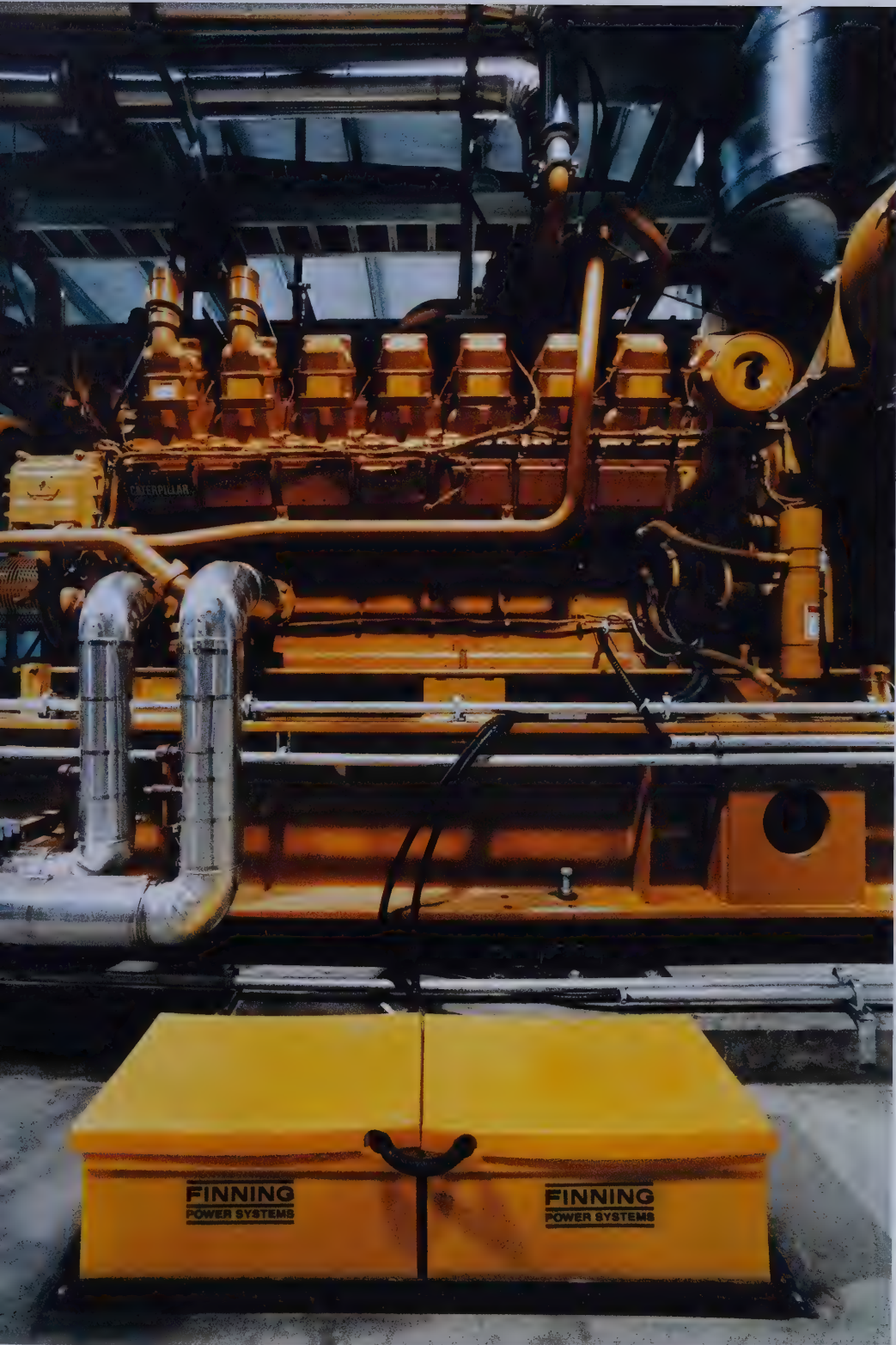
Designed and built the powerhouse and signed a 20-year contract to operate and maintain a landfill methane cogeneration project in Delta, B.C. that was developed by Finning's strategic

partner in distributed power, Maxim Power Corp. This is an example of several Finning "green" projects ongoing around the world.

Added engines manufactured by Caterpillar subsidiary Perkins Engines Company Limited to the product lineup in Western Canada, having previously acquired the distributorship for Caterpillar's Perkins and FG Wilson brands for Chile in 2002. The Perkins brand gives Finning access to a wide range of diesel and gas engine applications between five and 2,600 horsepower.

Sold \$40 million of generators to the Ministry of Defence in the U.K.

*Photo: CAT engine of the Delta Landfill project.*





### OPPORTUNITIES

#### "Green" projects

The Power Systems' success with "green" projects demonstrates the value of its company-wide focus and its capability to develop innovative solutions for customers' problems:

- A joint Finning-Caterpillar project in the U.K. developed a version of the G3520 CAT engine suitable for generating power by burning waste methane from landfill sites.
- The Company's first Canadian landfill co-generation project was built at Delta, B.C. Other projects in B.C. and Alberta are in earlier stages.
- The first co-generation project to utilize a G3520 gas engine in South America will be in Santiago, Chile, where the Company has signed an operational lease with Metrogas. The project is the first of its kind for Finning South America and is eligible for carbon credits under the Kyoto Protocol. The turnkey project has an overall plant efficiency of 82%. The Company will maintain the entire plant for seven years.
- The Company has successfully targeted a new application for the G3520 engine in Argentina where government environmental regulations prohibit oil companies from flaring waste gases associated with oil development. The first project is for Vintage Petroleum, Inc. where ten G3520 engines will generate power by burning waste gases.
- Finning and its strategic partner Maxim intend to target the petroleum waste gas market in Canada and other petroleum-producing regions of the world.

#### Caterpillar ACERT™ technology

Caterpillar's introduction in 2003 of on-road truck engines with ACERT™ technology (Advanced Combustion Emission Reduction Technology) will increase Finning's competitive advantage. Finning already has the leading market share in on-road truck engines in Western Canada, and the ACERT engines bring additional technical advantages over the competition. As CAT extends ACERT to other applications, Finning's capacity to maintain this advanced technology gives it a competitive advantage that will bring significant business opportunities.

#### Outside territorial dealerships

Power Systems Group technicians' use of CAT engines to solve difficult customers' problems provides Finning with opportunities to access markets outside its existing territorial dealerships. Examples include the Company's participation in Energyst which brings access to the European rental power systems marketplace. The Company's 36.8% equity interest in Maxim Power Corp. extends market access to other areas of the world.

*Photos: A Caterpillar application  
North American and overseas operations*



**Customer support services includes sales of parts and servicing of equipment, as well as service contracts to customers in the form of long-term maintenance and repair contracts. An important Company objective is to service a high ratio of the equipment it sells.**



*Douglas W. Sprout  
Executive Vice President,  
Customer Support Services*

*"We want to create an environment where we share best practices for achieving service excellence across the Company. It is a key component to achieving a successful service-oriented corporate culture. If something works well, we should all be doing it that way."*

#### **FINANCIAL PERFORMANCE**

Total revenue from customer support services, recorded through Finning (Canada), Finning (UK) and Finning South America, was \$1,068.8 million, compared with \$978.3 million in 2002, contributing 29.7% of Finning International's \$3,593.3 million total revenue.

#### **HIGHLIGHTS**

Our continuing emphasis on service excellence ensures that we constantly look to find new, innovative solutions to lower customers' operating costs and increase productivity. Our variety of services including the provision of new, used and rebuilt parts and components, wide ranging repair options, customer specialists, maintenance support systems, oil analysis, technical advice, customized repair and maintenance contracts and supply chain logistics allow us to provide customized solutions to meet our customers' ever-changing needs.

Customer specific solutions have led to significant success in the Canadian oil sands. Canadian operations have grown customer service support revenues by 135% over the last 5 years by providing a range of services including full maintenance and repair contracts. The mechanical support group in the oil sands has grown from 60 to 161 during this same time frame.

At Finning South America, we have grown our long-term maintenance and repair contracts to approximately 30% of our customer support revenue.

At Finning (UK)'s construction division, we have approximately 2,800 customer support contracts in place, an increase of almost 15% from 2001.

Customer support centres in both Canada and the U.K. continue to grow and expand their services. For example in Canada, centres provide around-the-clock parts support, scheduled oil sampling results, global maintenance system support, invoice viewing and technical support. In addition, these centres have become an integral element in the support of our safety processes in Canada through the monitoring by field service technicians.

The product problem management system first introduced into Finning (Canada) is now fully operational in Finning South America. This web-based system tracks product issues by model and machine type enabling mechanics to go online and determine what specific solutions have been used by other Finning mechanics. Using a common system and sharing information throughout the operations, further increases efficiency and effectiveness.

#### **OPPORTUNITIES**

##### **6 Sigma**

A disciplined methodology for analyzing and improving processes that translate directly into increased profitability is being introduced at Finning (Canada) and Finning South America in early 2004, and at Finning (UK) and Hewden Stuart at a later date. This methodology, which we have deliberately linked to our





corporate strategy, involves tackling a series of small process improvement projects, each taking four to six months to complete. We expect to achieve breakthroughs in customer service excellence and financial performance that may be otherwise unattainable.

Caterpillar credits its implementation of 6 Sigma for achieving more than US\$500 million of annual benefits in only its second year. Caterpillar is leading 6 Sigma training for Finning senior executives and project leaders, and describes 6 Sigma as "more than process improvement. It represents a much broader cultural philosophy to drive continuous improvement throughout the value chain."

#### Best practices

The Company has created and is expanding a process to formalize the sharing of best practices throughout each of the four operating companies and the

Power Systems group. In 2003, workshops and teleconferences for responsible executives began the ongoing process of sharing best practices in products, parts and service. In 2004, similar forums will be implemented for purchasing and technical services.

Examples of numerous best practices that began at one operating company and have been extended to the others include:

- The problem product management system provided by 6 Sigma.
- A time entry system first introduced in South American operations is now being transferred to Canada for implementation in their workshops.
- A component planning system developed by the rebuild operation in Canada during 2003 is now being implemented in South America. This system will allow for improved

effectiveness in the commitment and utilization of resources in our Component Rebuild Centres.

- Best practices shared between Canada, the U.K. and South America have resulted in online systems allowing customers to access a wide array of information on products and services such as security-protected specific information on their own accounts, contracts and records.
- Parts managers in Chile have implemented a process to determine under what circumstances it is more efficient to ship specific parts by aircraft rather than surface transport. The goal is to reduce delivery times to customers as well as lowering Finning's costs. This has led to changes in how selected parts are sourced by other Company operations.

*Photo: Field mechanics working on a 797B truck, Albian Oil Sands, Alberta.*

**At Finning, we appreciate that our success is based on the success of our customers, their employees and their communities. In return, we strive to play an active and constructive role in the hundreds of communities where we operate and our over 11,000 employees live.**



**Neil R. Dickinson**  
Vice President, Human Resources

*"We are totally committed to making Finning a safer place to work for the benefit of all our employees and our customers."*

#### COMMUNITY COMMITMENT

Corporate Knights Magazine Inc. named Finning International Inc. one of the 50 Best Corporate Citizens in Canada in 2003. The magazine considered community involvement, employee relations



and diversity, environment, product safety and business practices, international scope, corporate governance and five-year share performance.

In Canada, the Company has chosen the United Way as its main charitable focus. Employees throughout Western Canada and at the Finning International Inc. head office in Vancouver donated a combined \$343,998 to the 2003 United Way campaign. The Company matched that donation achieving a total of \$687,996. The Company also supports dozens of other community organizations and, through its Voluntary Involvement Fund, contributes to organizations for which its employees have provided volunteer assistance or monetary support. Finning (Canada) also donated \$25,000

to the Canadian Red Cross for disaster relief related to the forest fires at Kelowna, B.C.

At Finning (UK), the charitable focus is on four organizations. Donations in 2003 went to Children In Need, Comic Relief, The Lighthouse Club, and Prince's Trust. Company employees also serve as volunteers for these organizations.

At Hewden, employees and the Company choose to support hundreds of community organizations with monetary contributions, volunteers, and donations of machines and operators for emergencies and special events. Included among the varied recipients were the Edinburgh Military Tattoo, the Commonwealth Games in Manchester, the BBC program "Small Town Gardens",

32 temporary polling stations for local council and Welsh Assembly elections, and the Chest, Heart & Stroke Fund of Scotland.

In South America, the Company's largest charitable effort was directed to the Disabled Children's Telethon to which the Company donated P\$15,000,000 (\$31,000). Paul Batten, Vice President, Human Resources, representing the Company, and Carmen Gloria Vera, representing employees, appeared on the Telethon during prime time to make the donations.

### HEALTH AND SAFETY

We are committed to fostering the health and safety of all our employees. We believe a healthy workforce contributes significantly to Finning's success. As employees we take precautions to prevent illness or injury, and we make appropriate changes in our behavior or work environment that will contribute to improving the health and safety of others and ourselves. Our goal is to achieve zero lost time accidents. In 2003, we reduced our total number of accidents by 50% and at the same time expanded our operations in South America and the U.K.



### ENVIRONMENT

We are committed to conducting our business in a manner designed to protect the environment. In this spirit, we apply the following principles to our attitudes, behaviours and performance in environmental matters:

- Adopt environmental management practices and procedures that meet and exceed the standards of each community or region.
- Identify, assess, and reduce environmental risk through an environmental audit program.
- Educate employees on changes to environmental laws and regulations.
- Use suppliers and waste contractors that have high environmental standards and practices and routinely audit their performance.
- Ensure that future development to our business, operations, and facilities reflect our commitment to environmental issues.

In the U.K., Lloyds Register Quality Assurance certified and registered Finning (UK)'s environmental management system under the environmental standard ISO 14001. The Company is endeavouring to qualify for this standard in other parts of its operations.

### EMPLOYEE ENGAGEMENT

The Company believes that employees who are fulfilled by and engaged in their jobs are more likely to utilize their natural talents to be more productive, more customer-focused and safer.

In 2003, we continued to work with the Gallup Organization to assess the level of employee engagement. Survey data indicates the Company is moving in the right direction due to considerable focus and effort from all employees at all levels. This important area will remain a key pillar of our strategic effort during 2004.

### THINKBIG

Finning (Canada) and Finning South America, in partnership with Caterpillar, are supporting Caterpillar's ThinkBIG equipment technician program at the Northern Alberta Institute of Technology (NAIT) in Edmonton (began September 2003) and at Chile's national technical college INACAP (beginning March 2004). Twenty-four students will enroll each year in each country in the two-year program. Finning and Caterpillar combine to provide tools, instructors, and machinery, and will provide job opportunities to graduates.

*Photos left to right:*

1. Military Tattoo, Edinburgh, Scotland.
2. Forest Fires, Kelowna, B.C.
3. ThinkBIG Equipment Technician Program at NAIT.



**Finning achieved record revenue and strong earnings and cash flow in 2003. The Company's balance sheet also remains strong after reflecting the acquisitions in the year.**



**Wayne M. Bingham**  
Executive Vice President  
and Chief Financial Officer

*"Our investment grade status, reputation and opportunities, approach to acquisitions, and sound financial management are pillars to help us attain our financial goals."*

#### HIGHLIGHTS

##### **Financial performance**

Finning International Inc. achieved record revenues of \$3,593.3 million, an increase of 12.0% over 2002, and net earnings of \$132.0 million (or \$1.71 per share).

This performance was attained despite the strengthening of the Canadian dollar, which resulted in the Company's foreign-sourced revenues and earnings translating into fewer Canadian dollars.

In 2003, the Company incurred certain income and expense items that are not reflective of ongoing operations, including a gain of \$13.8 million from the sale of Finning (UK)'s power rental business, and expenses of \$22.1 million related to the implementation of the new DBSi computer system at Finning (UK). Adjusting for these items results in what the Company refers to as "normalized net earnings". In 2003 normalized net earnings were \$135.0 million (\$1.75 per share), compared with 2002's normalized net earnings of \$127.6 million (\$1.66 per share).

##### **Major acquisitions**

Completed the acquisitions of Macrosta Del Plata S.A. and General Machinery Co. S.A., the Caterpillar dealerships in Argentina and Uruguay respectively, for \$43.3 million. The purchase price of Matreq S.A., the Caterpillar dealership in Bolivia, was \$8.9 million.

Expanded to a 20% share of the U.K. materials handling market with the \$213 million acquisition of Lex Harvey.

The acquisitions were funded through debt supported by the Company's sound balance sheet. These acquisitions contributed to both the revenues and the earnings of the Company in 2003.

##### **Eurobond offering**

Completed the Company's first-ever international debt offering with a successful 10-year 200-million Sterling Eurobond issue, rated BBB+ by Standard and Poor's and listed on the Luxembourg Stock Exchange. The Eurobond bears interest at 5.625% per year, payable annually, and was priced at 99.043% of its principal amount to yield 5.753% per year. Proceeds were used to finance the Lex Harvey acquisition and to repay existing bank indebtedness.

##### **Dividend increase**

Paid an annual dividend of \$0.36 cents per share (\$0.09 per share declared and distributed quarterly), compared with the previous year's dividend of \$0.30 per share (\$0.07, \$0.07, \$0.08, and \$0.08 per share declared and distributed quarterly).

#### **Normal course issuer bid**

Announced the renewal of the normal course issuer bid through the facilities of the Toronto Stock Exchange. Under this issuer bid, Finning can purchase up to 7.8 million common shares during the one year ending on December 7, 2004. All shares purchased under the issuer bid will be cancelled. In 2003, Finning purchased a total of 1,338,900 common shares at an average price of \$24.51 per share.

#### **OPPORTUNITIES**

##### **Focus on growth and opportunities**

The Company pursues a growth strategy consistent with the Finning Formula. This strategy requires financial management to focus on:

- Facilitating the achievement of the Company's three key long-term financial performance objectives - 15% annual revenue and earnings growth, 20% return on equity, and a 30% share of all markets the Company targets as its core business.
- Ensuring the Company's financial resources are continually capable of seizing acquisition opportunities that meet its core business and value criteria.
- Maintaining the Company's credit rating and balance sheet strength.

##### **A new avenue for financing**

The successful Eurobond issue in 2003 demonstrated the Company's attractiveness to international capital markets, providing the Company with new sources of financing for future growth.

#### **BBB+ and BBB (high) credit ratings**

The Company ended the year with a debt to total capital ratio of 44%, compared with 38% at the end of 2002, reflecting increased debt to finance the acquisitions in 2003. The Company retained its BBB+ long-term credit rating from Standard and Poor's and its BBB (high) long-term rating with Dominion Bond Rating Service. The Company has available short-term bank credit of approximately \$1 billion to act on business opportunities as they arise.

#### **Expanded Management team**

The financial management team has been enhanced by the addition of a full-time Vice President, Corporate Development and Strategic Planning to reflect the Company's focus on strategic growth and financial performance. In addition, the Vice President Corporate Controller's responsibilities have been expanded to reflect increased emphasis on financial reporting, enterprise risk management and corporate governance.

#### **Dividend policy**

The Board of Directors' stated objective of maintaining a competitive dividend resulted in an annual dividend increase from \$0.30 per share in 2002 to \$0.36 per share in 2003. The Company also announced an increase in its quarterly dividend to \$0.10 per share in February 2004.

#### **Integrating assets**

Having completed a number of major acquisitions in 2003, the Company has a priority in 2004 to integrate the new businesses and to pursue synergies and efficiencies across the expanded operations. The Company, however, remains prepared to pursue prudent acquisitions.

#### **DBSi computer software system**

The new Caterpillar DBSi computer software system was successfully installed at Finning (UK) in early 2004. This will be a year where management will lever the enhanced capabilities of the new system.





This discussion and analysis of Finning International Inc. (Finning or the Company) should be read in conjunction with the consolidated financial statements and accompanying notes. The results reported herein have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and are presented in Canadian dollars unless otherwise stated.

## RESULTS OF OPERATION

Finning's consolidated revenues in 2003 increased 12% from 2002 to \$3,593.3 million, while consolidated net income was relatively unchanged at \$132.0 million. Basic earnings per share (EPS) for 2003 was \$1.71 compared with \$1.72 in 2002, representing a slight decrease.

The results for the year included other net expenses that are not reflective of the Company's ongoing operations totaling \$4.3 million pre-tax (2002: \$5.6 million pre-tax other income). Excluding these items, normalized earnings before interest and taxes (EBIT) for the year was \$259.5 million (2002: \$272.2 million), normalized net income was \$135.0 million (2002: \$127.6 million) and normalized basic EPS was \$1.75 (2002: \$1.66). Please refer to Schedule One for a summary of these items and a reconciliation of normalized (non-GAAP) results to published results.

Finning continued to deliver solid results despite the effects of a strengthening Canadian dollar, the impact of a competitive U.K. rental hire market and higher costs for pension plans. Finning achieved record revenues in the year reflecting the contribution from the newly acquired Caterpillar dealerships in Argentina, Uruguay and Bolivia, and the Finning (UK) acquisition of the Lex Harvey business in 2003.

Finning's business is geographically diversified and conducts business in multiple currencies, the most significant of which are the US dollar, the Canadian dollar, the U.K. pound sterling and the Chilean peso. The most significant foreign exchange impact on the Company's net income is the translation of foreign currency based earnings into Canadian dollars. Compared to the prior year, the Canadian dollar strengthened against all the other currencies in which the Company transacts its business. As a result, there was a negative impact on EBIT and net income of \$31.1 million and \$15.1 million, respectively.

Cash flow after changes in working capital was \$384.2 million compared with \$472.8 million in 2002. Depreciation taken on the higher rental assets base (\$51.9 million greater than in 2002) was offset by an additional \$121.9 million investment in working capital items mainly to support the activity in the businesses acquired during the year. Increases in accounts receivable and other assets were a result of supporting the normal operations of the Lex Harvey business in the U.K. and the strong December activity in Argentina. The investment in inventories supports South American deliveries in the first quarter of 2004. Cash used for income taxes reflects the timing of tax instalments. The Company reinvested \$261.6 million (2002: \$305.7 million) in revenue-earning rental and leased assets during the year. This reduction reflects sales of the lease portfolio to Caterpillar Financial Services in the second and fourth quarters of 2003 (\$63.6 million in 2003 compared with \$22.7 million in 2002). Taken together, these activities resulted in cash flow from operating activities decreasing from \$167.1 million in 2002 to \$122.7 million in 2003.

## CONSOLIDATED QUARTERLY RESULTS

(C\$ million, except for share data)

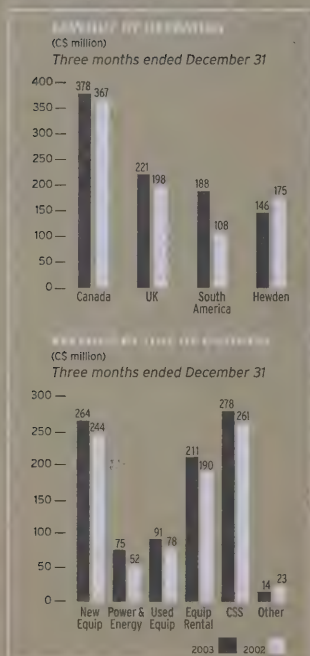
2003	For the three months ended				
	Mar-31	Jun-30	Sep-30	Dec-31	Total
Total revenue	874.2	861.1	925.0	933.0	3,593.3
Net income	35.1	32.2	36.6	28.1	132.0
Earnings per common share					
- basic	\$ 0.45	\$ 0.42	\$ 0.48	\$ 0.36	\$ 1.71
- diluted	\$ 0.44	\$ 0.41	\$ 0.47	\$ 0.36	\$ 1.68

(C\$ million, except for share data)

2002	For the three months ended				
	Mar-31	Jun-30	Sep-30	Dec-31	Total
Total revenue	771.5	797.4	790.9	847.7	3,207.5
Net income	30.7	34.7	35.6	31.3	132.3
Earnings per common share					
- basic	\$ 0.40	\$ 0.46	\$ 0.46	\$ 0.40	\$ 1.72
- diluted	\$ 0.39	\$ 0.44	\$ 0.45	\$ 0.40	\$ 1.68

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### FOURTH QUARTER HIGHLIGHTS



Finning's consolidated revenues hit record levels in the fourth quarter of 2003 and increased 10% from 2002 levels to \$933.0 million mainly as a result of higher revenues in the Company's Canadian, South American and U.K. operations. The increase in South America and the U.K. reflects the contribution from the newly acquired Caterpillar dealerships in Argentina, Uruguay and Bolivia, and the Finning (UK) acquisition of the Lex Harvey business in 2003. The Company experienced continued strength in all core lines of business on a year over year basis for the quarter.

Net income for the fourth quarter of 2003 declined 10% to \$28.1 million and EPS for the quarter was \$0.36 compared with \$0.40 in 2002. Excluding other net expenses that are not reflective of the Company's ongoing operations, normalized net income for the fourth quarter was \$32.7 million (2002: \$36.6 million) and normalized basic EPS was \$0.42 (2002: \$0.47). The year over year decrease for the 3 months ended December 31 is primarily due to the negative impact of foreign exchange and lower earnings from Hewden due to competitive pressures. There were also lower earnings from Finning (UK) due to lower activity from the construction business, absence of the power rentals business which was sold in the first quarter of 2003, and a focus in the quarter on the implementation of the DBSi system. Partially offsetting the decline in the fourth quarter of 2003 were the accretive earnings from acquisitions made in 2003.

During the fourth quarter, the Canadian dollar was stronger against all the other currencies in which the Company transacts its business compared with the same period last year. As a result, foreign exchange negatively impacted EBIT and net income by \$19.7 million and \$9.2 million, respectively.

Cash flow after changes in working capital was \$91.8 million for the three months ended December 31, 2003 compared with \$40.5 million for the same period in 2002. Cash expended on working capital items in the fourth quarter of 2003 was \$34.4 million less than that in the comparable period of 2002. The Company reinvested \$48.0 million (2002: \$36.7 million) in revenue-earning assets during the fourth quarter. Investment in rental assets in the fourth quarter of 2003 was \$45.2 million higher compared with the fourth quarter of 2002 while equipment leased to customers decreased by \$33.9 million reflecting the fourth quarter sale of leases to Caterpillar Financial Services Limited.

### ANNUAL FINANCIAL SUMMARY

The table below sets forth summary financial data for the years indicated.

(C\$ million)	2003	2002	(% of Revenue)	
			2003	2002
Revenue	\$3,593.3	\$3,207.5		
Gross profit	1,037.6	959.7	28.9%	29.9%
Selling, general & administrative expenses	778.1	687.5	21.7%	21.4%
Normalized EBIT	259.5	272.2	7.2%	8.5%
Other expenses (income)	4.3	(5.6)	0.1%	(0.2)%
EBIT	255.2	277.8	7.1%	8.7%
Finance costs and interest on other indebtedness	76.9	79.8	2.1%	2.5%
Provision for income taxes	26.6	47.7	0.7%	1.5%
Non-controlling interests	19.7	18.0	0.5%	0.6%
Net income	\$132.0	\$132.3	3.7%	4.1%

## REVENUES BY OPERATING UNITS FOR THE YEAR

In 2003, consolidated revenues were higher by \$385.8 million when compared with the prior year. Finning experienced continued strength in all lines of business with the exception of the leasing and finance lines of business. The reduction in finance and lease revenues is a result of a lower finance and leased assets portfolio due to dispositions undertaken in late 2002 and 2003 in Canada.

Finning's order backlog has significantly increased from December 2002. Backlog for new equipment, power systems, and material handling units at December 31, 2003 was \$420 million compared with \$360 million at September 30, 2003 and \$300 million at December 31, 2002.

The table below provides details of revenue by operations and lines of business for the year.

(C\$ million)

2003	Canada	UK	South America	Hewden	Other	Consolidated	Revenue %
New mobile equipment	\$ 494.9	\$ 318.2	\$ 138.5	\$ 14.4	\$ -	\$ 966.0	26.9%
New power & energy systems	101.8	118.1	42.5	-	-	262.4	7.3%
Used equipment	177.4	115.9	26.7	43.6	-	363.6	10.1%
Equipment rental	116.1	137.4	25.8	542.0	-	821.3	22.9%
Operating leases	65.4	-	0.5	-	-	65.9	1.8%
Customer support services	497.1	244.6	327.1	40.8	-	1,109.6	30.9%
Finance and other	3.6	-	0.9	-	-	4.5	0.1%
Total	\$ 1,456.3	\$ 934.2	\$ 562.0	\$ 640.8	\$ -	\$ 3,593.3	100.0%
Revenue percentage by operations	40.5%	26.0%	15.6%	17.9%	0.0%	100.0%	

2002	Canada	UK	South America	Hewden	Other	Consolidated	Revenue %
New mobile equipment	\$ 391.0	\$ 325.0	\$ 98.4	\$ 10.9	\$ -	\$ 825.3	25.7%
New power & energy systems	73.1	92.2	26.7	-	-	192.0	6.0%
Used equipment	142.9	124.8	13.8	48.2	-	329.7	10.3%
Equipment rental	102.2	61.2	15.8	565.3	-	744.5	23.2%
Operating leases	87.6	-	-	-	-	87.6	2.7%
Customer support services	464.5	225.0	288.8	40.9	-	1,019.2	31.8%
Finance and other	8.0	-	1.1	-	0.1	9.2	0.3%
Total	\$ 1,269.3	\$ 828.2	\$ 444.6	\$ 665.3	\$ 0.1	\$ 3,207.5	100.0%
Revenue percentage by operations	39.6%	25.8%	13.9%	20.7%	0.0%	100.0%	

## Finning (Canada)

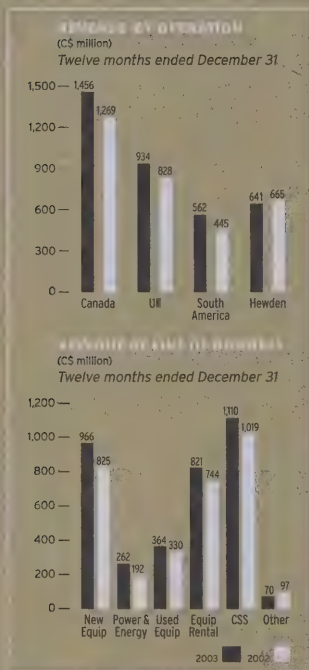
Revenues in 2003 increased 14.7% to \$1,456.3 million. Revenues in 2003 exceeded 2002 levels despite the impact of a strengthening Canadian dollar, which reduced revenues by \$67.2 million in 2003 compared with 2002.

Most of the year over year increase was due to the continued strength in the mining and gas/energy sectors resulting in an increase in the sales of new mobile equipment and new power and energy systems. The improvement in new equipment sales continues to be supported by a strong order backlog. The volume of new orders increased in units by 41% in 2003 but the dollar value of new orders was \$12 million lower than 2002. This is a result of large year over year increase in orders from the oilfield and construction sectors offset by lower, high dollar mining orders.

New equipment sales also increased as a result of selling equipment leased to customers to Caterpillar Financial Services Limited during the year totaling \$56.8 million (\$23.4 million in 2002). Consequently, finance and lease revenues declined by 27.8% to \$69.0 million due to the reduction in the asset portfolio. Finning expects finance and lease revenues to be lower in 2004 compared with 2003 as a result of the portfolio reduction in 2003.

Used equipment sales increased 24.1% to \$177.4 million in 2003 as a result of a successful rental and lease conversion program and sales of leased equipment to Caterpillar Financial Services Limited totaling \$17.0 million (\$1.9 million in 2002).





Revenues from customer support services increased 7.0% overall in 2003 compared with 2002. Volume and higher US based prices were offset by the impact of an approximate 7.5% reduction of parts selling prices as a result of the strengthening Canadian dollar relative to the United States dollar.

Equipment rental revenues were 13.6% higher than 2002 reflecting a growing rental business in Canada. At December 31, 2003, a total of 25 CAT rental stores (2002: 12) were operating in British Columbia and Alberta.

#### Finning (UK)

Revenues in 2003 were higher by 12.8% compared with the prior year primarily due to higher rental revenues reflecting the impact of the acquisition of the Lex Harvey business in 2003, an increase in new equipment sales and customer support services, especially in Power Systems. In local currency, revenues improved 16.3%. This increase was partially offset by lower used equipment sales and the effect of translating revenues from pound Sterling to Canadian dollars.

Rental revenues more than doubled in 2003 primarily due to Finning (UK)'s acquisition of the Lex Harvey business effective June 1, 2003, which contributed \$109.4 million to revenues in 2003. This was offset by a \$14.3 million reduction in rental revenues due to the sale of the Power Systems rental business in the first quarter of 2003. With the addition of Lex Harvey, rental revenue comprises 14.7% of the total revenue compared with 7.4% in the previous year.

Total new equipment revenues in 2003 increased 4.6% from the prior year in Canadian dollars (7.8% in local currency). This increase was primarily due to revenues from the Power & Energy Systems line of

business which increased 28.1% in 2003 with more deliveries of air conditioning units and generators to the Electric Power Generation Diesel sector.

Used equipment revenues declined due to lower demand from domestic and international markets.

#### Finning South America

Revenues from South America increased \$117.4 million, or 26.4%, compared with 2002. In US dollar terms, revenues in South America improved 42.9% over 2002. This increase was due to contributions from the 2003 acquisitions of Caterpillar dealerships in Argentina, Uruguay and Bolivia, which contributed \$142.0 million. In the Chilean operation, revenues declined by \$24.6 million, or 5.6%, compared with 2002 due to soft copper prices at the beginning of 2003 and customer deferral of equipment purchases into 2004 to take advantage of lower pricing due to the new free trade agreement with the United States effective January 2004. South American revenues continue to strengthen due to large equipment sales and growth in customer support services.

Revenue in 2003 improved by 13.3% in customer support services mainly due to the addition of the Argentina dealership in 2003 as well as continued benefit from maintenance and repair agreements for existing mining customers.

Copper prices, currently at seven-year high levels, are forecast to remain strong in 2004. This will continue to drive demand for product from large mining customers in Chile and create opportunities for our operations in South America.

Effective October 1, 2003, the Company adopted the US dollar as the functional currency of its Chilean operations. The Company's other operations in South America that were acquired during the year are all using the US dollar as their functional currency. Management believes that the US dollar best portrays the underlying economic transactions of its South American operations and reflects how the businesses are managed. The net effect of this prospective change was to decrease net assets by \$18.3 million and increase net income reported for the fourth quarter of 2003 by approximately \$3.6 million.

**Hewden**

2003 annual revenues of \$640.8 million were 3.7% lower than 2002, being impacted by the strengthening of the Canadian dollar relative to the pound Sterling. In local currency, revenues were relatively unchanged year over year. Revenues in 2003 continued to reflect the competitiveness in the U.K. rental hire market. While customer demand remains strong, the rental hire market is challenged with overcapacity and downward pressure on prices.

In order to increase market share and performance, under-performing depots were closed in 2002 and 2003 and new depots were opened in more appropriate locations. As of December 31, 2003, Hewden operated 317 locations throughout the U.K. with future expansion opportunities being predominately through complementary acquisitions.

**GROSS PROFIT**

Gross profits increased \$77.9 million (8.1%) to \$1,037.6 million in 2003 compared with 2002. This increase is due to higher gross profit provided by the Company's Canadian, Finning (UK) and South American operations reflecting volume increases and acquisitions offset by the negative effect of the strengthening Canadian dollar when translating foreign currency based earnings and the negative impact of the appreciation of the Euro against pound Sterling in the materials handling business as fleet purchases are made in Euros. As a percentage of revenue, gross margin was lower in 2003 at 28.9% compared with 29.9% in 2002, reflecting a slight revenue mix shift to lower margined equipment sales.

**SELLING, GENERAL AND ADMINISTRATIVE EXPENSES**

Selling, general and administrative expenses (SG&A) increased \$90.6 million (13.2%) to \$778.1 million in 2003 compared with 2002. As a percentage of 2003 revenue, SG&A was 21.7%, which is comparable with 21.4% in 2002. Influencing factors included:

- higher selling costs resulting from sales volume increases and higher operating expenses supporting the rental business (\$53.6 million).
- higher general and administrative costs of \$37.0 million, which included the following:
  - new acquisitions which are still in the process of being integrated (\$14.9 million).
  - increased operating costs in Canada, Finning (UK) and Hewden due to higher pension expenses (\$7.0 million).
  - higher expenses for long-term incentive plans of \$7.8 million. These costs are directly related to achieving the common share price vesting hurdles established for the long-term incentive plans. The Company's share price increased by more than 17% over the year to \$30.00 per share at December 31, 2003 which equates to an increase in the Company's market capitalization of over \$345 million.

**OTHER EXPENSES (INCOME)**

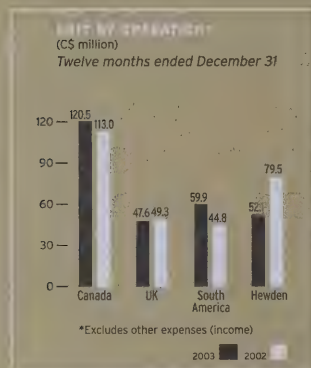
Other expenses (income) include items shown separately to facilitate comparison with the prior year. As a result of these items, which are not reflective of ongoing operations, Finning recorded a pre-tax net other expense of \$4.3 million, \$3.0 million after-tax in 2003. These pre-tax items included:

- costs incurred on the DBSi process reengineering project of \$22.1 million (2002: \$10.2 million). DBSi is the new information technology for the Caterpillar Dealer Business System. DBSi enhancements encompass customer relationship management, finance and administration, and supply chain management. The implementation of DBSi was successfully completed in Finning (UK) in January 2004.
- the sale of the Finning (UK) power rental business for a gain of \$13.8 million.
- the sale of surplus real estate in Canada and the U.K. for a gain of \$1.8 million (2002: \$15.2 million).
- \$1.6 million deferred gain amortization relating to the 2001 sale of the Materials Handling business in Canada (2002: \$1.6 million).
- equity investment gain of \$0.6 million (2002: loss of \$1.0 million).

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### EARNINGS BEFORE INTEREST AND TAXES (EBIT)

EBIT decreased by 8.1% to \$255.2 million compared with \$277.8 million in 2002 primarily due to the impact of foreign exchange, the cost of long term incentive plans and expenses incurred in 2003 related to the DBSi software implementation and business process reengineering project. EBIT as a percentage of revenue was 7.1% in 2003 (2002: 8.7%). Excluding DBSi costs and certain other items, 2003 normalized EBIT for the year was \$259.5 million compared with normalized 2002 EBIT of \$272.2 million.



Major components of the year-to-date EBIT variance were (\$ million):

2002 annual EBIT	\$ 277.8
Increase due to 2003 acquisitions	23.0
Operations – growth / cost savings	13.5
Net divestitures	(3.3)
Cost of long term incentive plan	(7.8)
Increased pension costs	(7.0)
Other expenses/(income) – increase in net expenses	(9.9)
Foreign exchange impact	(31.1)
2003 annual EBIT	\$ 255.2

The table below illustrates annual EBIT contribution by operations:

(\$ million)

2003	Canada	UK	South America	Hewden	Other	Consolidated
Revenue from external sources	\$ 1,456.3	\$ 934.2	\$ 562.0	\$ 640.8	\$ –	\$ 3,593.3
Operating costs	1,210.5	820.9	480.0	446.9	20.6	2,978.9
Depreciation	125.3	65.7	22.1	141.8	–	354.9
Other expenses (income)	–	–	–	–	4.3	4.3
Earnings before interest and tax	\$ 120.5	\$ 47.6	\$ 59.9	\$ 52.1	\$ (24.9)	\$ 255.2
EBIT as a percentage of revenue	8.3%	5.1%	10.7%	8.1%		7.1%
EBIT percentage by operations	47.2%	18.7%	23.5%	20.4%	(9.8)%	100.0%

2002	Canada	UK	South America	Hewden	Other	Consolidated
Revenue from external sources	\$ 1,269.3	\$ 828.2	\$ 444.6	\$ 665.3	\$ 0.1	\$ 3,207.5
Operating costs	1,021.2	752.8	388.1	443.7	14.5	2,620.3
Depreciation	135.1	26.1	11.7	142.1	–	315.0
Other expenses (income)	–	–	–	–	(5.6)	(5.6)
Earnings before interest and tax	\$ 113.0	\$ 49.3	\$ 44.8	\$ 79.5	\$ (8.8)	\$ 277.8
EBIT as a percentage of revenue	8.9%	6.0%	10.1%	11.9%		8.7%
EBIT percentage by operations	40.7%	17.8%	16.1%	28.6%	(3.2)%	100.0%

### FINANCE COSTS AND INTEREST ON OTHER INDEBTEDNESS

Finance costs and interest on other indebtedness in 2003 was \$76.9 million, or \$2.9 million lower than 2002. The costs associated with slightly higher average debt levels in 2003 compared with 2002 were more than offset by the impact of interest rate swap contracts and the stronger Canadian dollar on foreign denominated debt. The increase in debt levels is a result of funding the Company's 2003 acquisitions through debt, most notably with the issuance of the £200 million Eurobond in May 2003.



### PROVISION FOR INCOME TAXES

Income tax expense in 2003 amounted to \$26.6 million (2002: \$47.7 million), reflecting an effective tax rate of 16.8% during the year compared with 26.5% in 2002. The lower effective tax rate reflects a lower effective Canadian tax rate, favourable tax reassessments during 2003, and effective tax planning strategies. Management anticipates that for 2004, the consolidated effective tax rate will return to a level approximating 22%.

### NON-CONTROLLING INTERESTS

The Company formed a partnership in 2001 for the purpose of raising capital to fund the acquisition of Hewden. The private investors injected \$425 million into the partnership in return for non-controlling partnership interests. The financial position, results of operations and cash flows of the partnership are consolidated with the Company from its date of inception. The distribution to the non-controlling partnership interests for the year was \$19.7 million, representing a yield of 4.6% compared with \$18.0 million and a yield of 4.2% in 2002. The higher rates in 2003 are due to the increase in the Canadian dollar bankers' acceptances rate which is used in determining the distributions to the partnership interests.

Through their partnership interest, the private investors have a preferred interest in the shares of Hewden ranking in priority to the debt securities issued by the Company. The return to which the private investors are entitled is limited to a quarterly distribution on their partnership interests, which is calculated with reference to Canadian dollar bankers' acceptances as discussed above. At the end of five years, the yield on the partnership interest will be renegotiated. If no agreement on a new yield is reached, the private investors have the right to sell their partnership interests. The partnership has a maximum life of 75 years but may be liquidated earlier if the partnership and the Company fail to agree on a new yield on the partnership interest and the parties have been unable to arrange a sale of the partnership interest to a new investor. The Company has the option of purchasing the partnership interest held by the private investors throughout the life of the partnership for an amount equal to the capital invested in the partnership interest by the private investors. In the event the Company does not purchase the partnership interest and the partnership is liquidated, the Company will be required to inject funds to a maximum of approximately \$200 million if the private investors are unable to recover their investment from the sale of the shares of Hewden. The Company's obligation to inject these funds would rank equally with the debt securities.

No return of capital is scheduled during the life of the partnership but a partial return of capital is required in the case of certain sales of assets by Hewden out of the ordinary course of business.

### NET INCOME

Net income was relatively unchanged at \$132.0 million in 2003 compared with the prior year, with basic earnings per share in 2003 of \$1.71 compared with \$1.72 earned in 2002. Normalized for other items noted above, net income was \$135.0 million compared with \$127.6 million last year and normalized basic earnings per share increased to \$1.75 from \$1.66.

### ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and disclosure of contingent assets and liabilities. The more significant estimates include: fair market values for goodwill impairment tests, reserves for warranty, provisions for income tax, residual values for leased assets and costs associated with maintenance and repair contracts.

During the year, the Company performs an assessment of goodwill by estimating the fair value of operations to which the goodwill relates using the expected present value of future discounted cash flows, which resulted in no indication of impairment in 2003. The Company performs impairment tests on its goodwill balances on an annual basis or as warranted by events or circumstances. A significant portion of recorded goodwill relates to Hewden Stuart plc, acquired in 2001.

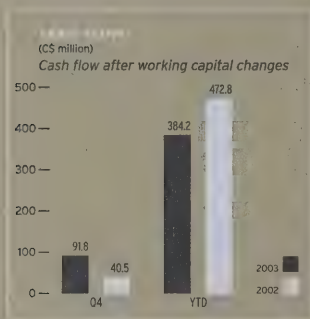
Due to the size, complexity and nature of the Company's operations, various legal matters are pending. In the opinion of management, these matters will not have a material effect on the Company's consolidated financial position or results of operations.

Proceedings amounting to £16.6 million plus costs and interest have been brought against Hewden Tower Cranes Limited, a subsidiary of the Company, by Yarm Road Limited and Cleveland Bridge U.K. Limited, for damages arising

## MANAGEMENT'S DISCUSSION AND ANALYSIS

from the collapse of a tower crane at the Canary Wharf site in the U.K. on May 21, 2000. The business of Hewden Tower Cranes Limited was sold by the Company in October 2002.

On January 12, 2004, an award of £1.5 million was awarded to the plaintiff under an adjudication process that remains binding until the matter is ruled upon by the High Court of Justice. The trial date is set for June 2004. The Company has accounted for the adjudication decision in 2003. The outcome of this claim is uncertain and the resultant loss, if any, to the Company is not determinable.



### Liquidity and Capital Resources

Management of the Company assesses liquidity in terms of its ability to generate sufficient cash flow to fund its operations. Net cash flow is affected by the following items:

- operating activities, including the level of accounts receivable, inventories, accounts payable, rental equipment and financing provided to customers;
- investing activities, including acquisitions of complementary businesses, and capital expenditure; and
- external financing, including bank credit facilities, commercial paper and other capital market activities, providing both short and long-term financing.

### Cash Flow From Operating Activities

Operating cash flow (before working capital items and revenue-earning assets) was \$506.1 million for the year ended December 31, 2003, an increase of 9.9% from the 2002 comparable balance of \$460.6 million. Cash flow after changes in working capital for the year was \$384.2 million, down 18.7% from 2002. Depreciation taken on the higher rental assets base (\$51.9 million greater than 2002) was offset by an additional \$121.9 million investment in working capital items mainly to support the activity in the businesses acquired during the year. Increases in accounts receivable and other assets were a result of supporting the normal operations of the Lex Harvey business in the U.K. and the strong December activity in Argentina. The investment in inventories supports South American deliveries in the first quarter of 2004. Cash used for income taxes reflects the timing of tax instalments.

Excluding business acquisitions, the Company reinvested \$261.6 million (2002: \$305.7 million) in revenue-earning rental and leased assets during the year. The lower net investment in 2003 reflects sales of the lease portfolio to Caterpillar Financial Services Limited in the second and fourth quarters of 2003 (\$63.6 million in 2003, compared with \$22.7 million in 2002). These activities resulted in cash flow from operating activities decreasing from \$167.1 million in 2002 to \$122.7 million in 2003.

### Cash Used For Investing Activities

Net cash utilized for investing activities totalled \$314.3 million in 2003 compared with cash provided in 2002 of \$49.1 million. Cash was utilized for investing in 2003 for the following items:

- \$212.7 million for the acquisition of Lex Harvey.
- \$72.1 million for the acquisition of Caterpillar dealerships in Argentina, Uruguay and Bolivia.
- Operational net capital expenditures of \$63.6 million, an increase from 2002 due to the capital requirements of the new acquisitions in 2003 and operating facility enhancements.

These uses of cash in 2003 were offset by the sale of the Finning (UK) Power Systems rental business, which generated \$34.1 million in cash.

Net cash generated from investing activities in 2002 of \$49.1 million was primarily from the divestiture of Hewden's non-core business Tower Cranes, and from the net proceeds of the sale/leaseback of the Canadian operations' properties. This was partially offset by cash investments in Maxim Power Corporation (Maxim), Distribuidora Perkins Chilena SAC (Diperk) in Chile and the purchase of the remaining assets of Maxxiom Limited in the U.K.

The Company's planned capital expenditures for 2004 are projected to total \$139 million (2003: \$90 million) and will be funded through operations.

### Financing Activities

To complement the internally generated funds from operating and investing activities, the Company has available approximately \$1,016 million in unsecured short-term credit facilities. At the year-end, approximately \$104.9 million was drawn against the short-term facilities. The Company also has a commercial paper program for \$300 million, which can be issued against the designated short-term credit facilities amount.

Longer-term capital resources are provided by direct access to capital markets. The Company is rated by both Standard & Poor's (S&P) and Dominion Bond Rating Service (DBRS). DBRS rates the Company's senior debentures and medium term notes as BBB (high) and its commercial paper as R-2 (high). The S&P rating on long-term debt is BBB+ stable.

As at December 31, 2003 overall debt increased by \$273.8 million, reflecting the increased financing requirement for acquisitions. Short-term debt decreased by \$153.2 million to \$104.9 million during the year, while long-term debt increased by \$427.0 million to \$983.4 million.

On May 30, 2003, Finning issued a 10-year, unsecured £200 million Eurobond. The Eurobond bears coupon interest at 5.625% per annum, payable annually commencing May 30, 2004. The Eurobond was priced at 99.043% of its principal amount to yield 5.753% per annum. The Eurobond is rated BBB+ by Standard and Poor's. The Eurobond proceeds of \$449.5 million at the date of issuance were utilized to finance the acquisition of Lex Harvey as well as repaying existing bank indebtedness.

In the fourth quarter of 2002, the Company generated cash of \$88.6 million upon the sale of the majority of its instalment notes receivable portfolio to Caterpillar Financial Services Limited. In addition, the Company entered into a \$120.0 million securitization program for its accounts receivable portfolio in Canada, described below. In December 2002, the Company sold \$30.0 million as an initial amount under the program. The cash from these activities was redeployed to fund new acquisitions and other growth initiatives. Also, in late 2002, cash was used to make a payment of \$39.7 million to fund non-registered pension plans that were previously underfunded.

The Company did not issue equity in 2003 or 2002. Share capital increased from \$233.4 million in 2002 to \$248.9 million at the end of 2003, reflecting the exercise of stock options for approximately 1.5 million common shares. Under a normal course issuer bid, which began on December 3, 2002, the Company was allowed to buy back a maximum of approximately 7.7 million shares (10% of the Company's public float) up to December 2, 2003. The Company undertook this issuer bid, as it believed that the current market price of its common shares did not reflect the underlying value of the Company. The Company re-filed a normal course issuer bid on December 8, 2003, which allows the Company to buy back up to approximately 7.8 million shares (10% of the Company's float) between December 8, 2003 and December 7, 2004. Finning repurchased 1,338,900 common shares during 2003 as part of the normal course issuer bid that was in place during the year. These shares were repurchased at an average price of \$24.51 for an aggregate cost of \$32.8 million which was allocated to reduce share capital by \$4.0 million and retained earnings by \$28.8 million. Finning did not repurchase any common shares during 2002.

As a result of management's confidence in the future earnings for the Company and commitment to the return of value to its shareholders, the Company increased its quarterly dividend rate during 2002 and 2003. The quarterly dividend rate was increased in total by 4 cents over this period. Subsequent to year-end, in February 2004 the dividend rate was further increased by one cent to ten cents per common share.

### Contractual Obligations

Principal payments on contractual obligations in each of the next five years and thereafter are as follows:

(C\$ million)	2004	2005	2006	2007	2008	Thereafter
Long-term debt	\$ 235.2	\$ 8.8	\$ 78.1	\$ -	\$ 200.0	\$ 461.3
Operating leases	63.5	53.1	42.7	34.4	28.2	218.5
Total contractual obligations	\$ 298.7	\$ 61.9	\$ 120.8	\$ 34.4	\$ 228.2	\$ 679.8



**Off-Balance Sheet Arrangement**

Under an agreement dated November 29, 2002, the Company sold a \$30.0 million co-ownership interest in a pool of eligible non-interest bearing trade receivables to a multi-seller securitization trust. The securitization program was not increased in 2003. Under the terms of this agreement, which expires on November 29, 2007, the Company can sell co-ownership interests of up to \$120.0 million on a revolving basis. The Company retains a subordinated interest in the cash flows arising from the eligible receivables underlying the trust's co-ownership interest. The trust and its investors do not have recourse to the Company's other assets in the event that obligors fail to pay the underlying receivables when due. Pursuant to the agreement, the Company continues to service the pool of underlying receivables.

As at December 31, 2003, the Company is carrying a retained interest in the transferred receivables in the amount of \$9.0 million (as at December 31, 2002 - \$8.2 million).

For the year ended December 31, 2003, the Company recognized a pre-tax loss of \$0.9 million (December 2002: \$0.1 million) relating to these transfers. The Company estimates the fair value of its retained interest and computes the loss on sale using a discounted cash flow model. The key assumptions underlying this model are:

	December 31, 2003	Range for year ended 2003
Cost of funds	3.08%	3.05% to 3.58%
Weighted average life in days	30.4	23.3 to 34.9
Average credit loss ratio	0.11%	(0.454)% to 0.113%
Average dilution ratio	6.57%	4.98% to 8.27%
Servicing fee rate	2.0%	2.0%
Fair value of retained interest	\$7.7 million	

The impact of an immediate 10 percent and 20 percent adverse change in the average dilution ratio on the current fair value of the retained interest would be reductions of approximately \$0.3 million and \$0.5 million, respectively. The impact of an immediate 10 percent and 20 percent adverse change in the weighted average life in days on the current fair value of the retained interest would be reductions of approximately \$0.7 million and \$1.3 million, respectively. The sensitivity of the current fair value of the retained interest or residual cash flows to an immediate 10 percent and 20 percent adverse change in each of the remaining assumptions is not significant.

Certain cash flows received from and paid to the securitization trust are noted below:

(C\$ million)

For the years ended December 31	2003	2002
Proceeds from new securitization	\$ -	\$ 30.0
Proceeds from revolving reinvestment of collections	\$ 29.6	\$ 25.0

**Employee Share Purchase Plan**

The Company has an employee share purchase plan for its Canadian employees. Under the terms of this plan, eligible employees may purchase common shares of the Company in the open market at market value. The Company pays a portion of the purchase price to a maximum of 2% of employee earnings. At December 31, 2003, over 66% of Canadian employees were contributing to this plan compared with 63% at the end of 2002. During 2002, the Company commenced an All Employee Share Purchase Ownership Plan for its employees in Finning (UK) and Hewden. Under the terms of this plan, employees may contribute up to 10% of their salary to a maximum of £125.00 per month. The Company will provide one common share, purchased in the open market, for every three the employee purchases. At December 31, 2003, over 23.4% and 10.3% of eligible employees in Finning (UK) and Hewden, respectively, were contributing to this plan. These plans may be cancelled by Finning at any time.

## FINANCIAL PERFORMANCE

The Company's overall debt to total capital increased from 38% at the end of 2002 to 44% at the end of 2003. This increase in the overall debt to total capital was primarily due to the additional debt requirements to fund acquisitions, partially offset by the Company's continued focus on asset management programs to improve current operating asset efficiency. The debt to total capital ratios were calculated on a fully consolidated basis including the non-controlling interests of \$425.0 million as equity.

Performance ratios utilized by the Company declined slightly in 2003. Return on assets declined from the record 2002 level of 8.9% to 8.2% reflecting the impact of acquisitions, integrations and system implementation that occurred in 2003. Return on equity, excluding other net expenses that are not regarded as part of the core business of the Company, declined from 15.2% to 14.7%.

## FINANCIAL DERIVATIVES AND RISK MANAGEMENT

The Company uses various financial instruments such as interest rate swaps, cross currency swaps, forward exchange contracts and options to manage its foreign exchange and interest rate exposures. Derivative financial instruments are always associated with a related risk position and are never used for trading or speculative purposes.

The Company continually evaluates and manages risks associated with financial derivatives. This includes counterparty credit exposure. The Company manages its credit exposure by ensuring there is no substantial concentration of credit risk with a single counterparty, and by dealing only with highly rated financial institutions as counterparties.

## FINANCIAL RISK AND UNCERTAINTIES

### Interest Rates

The Company's debt portfolio is comprised of both fixed and floating rate debt instruments, with terms to maturity ranging up to ten years. In relation to its debt financing, the Company is exposed to potential changes in interest rates, which may cause the Company's borrowing costs to fluctuate. Floating rate debt exposes the Company to increases in short-term interest rates, while fixed rate debt exposes the Company to future interest rate movements upon the debt's maturity. Increases in current or future interest rates could result in a material adverse impact on the Company's financial results, by causing related finance expense to rise. Further, the fair value of the Company's fixed rate debt obligations may be negatively affected by declines in interest rates, thereby exposing the Company to potential losses on early settlements or refinancing. The Company minimizes its interest rate risk by balancing its portfolio of fixed and floating rate debt, as well as managing the term to maturity of its debt portfolio. The Company utilizes derivative instruments, such as interest rate swaps, to adjust the balance of fixed and floating rate debt, and to reduce its overall cost of borrowing.

### Credit Risk

The Company has a large diversified customer base, and is not dependent on any single customer or group of customers. Although there is usually no significant concentration of credit risk related to the Company's position in trade accounts or notes receivable, the Company does have a certain degree of credit exposure arising from its foreign exchange and interest rate derivative contracts. There is a risk that counterparties to these derivative contracts may default on their obligations. However, the Company minimizes this risk by ensuring there is no excessive concentration of credit risk with any single counterparty, active credit management and monitoring, and by dealing only with highly rated financial institutions.

### Financing Arrangements

The Company requires substantial amounts of capital to finance its future growth and to refinance its outstanding debt obligations as they come due for repayment. In addition, the Company may have financing requirements arising from the partnership formed with Hewden's non-controlling private investors. If the cash generated from the Company's business, together with the credit available under existing bank facilities, is not sufficient to fund future capital requirements, the Company will require additional debt or equity financing in the capital markets. The Company's ability to access capital markets on terms that are acceptable will be dependent upon prevailing market conditions, as well as the Company's future financial condition. Further, the Company's ability to increase its debt financing may be limited by its financial covenants or its credit rating objectives. Although the Company does not

## MANAGEMENT'S DISCUSSION AND ANALYSIS

anticipate any difficulties in raising funds in the future, there can be no assurance that capital will be available on suitable terms and conditions, or that borrowing costs and credit ratings won't be adversely affected. In addition, the Company's current financing arrangements contain certain restrictive covenants that may impact the Company's future operating and financial flexibility.

### **Commodity Prices**

The Company's sales are also indirectly affected by fluctuations in commodity prices. In Canada, commodity price movements in the forestry, metals, coal and petroleum sectors can have an impact on customers' demands for equipment and customer service. In Chile and Argentina, significant fluctuations in the price of copper and gold can have similar effects. In the U.K., lower prices for thermal coal may reduce equipment demand in that sector.

### **Foreign Exchange Exposure**

The Company is geographically diversified, with significant investments in several different countries. The Company transacts business in multiple currencies, the most significant of which are the US dollar, the Canadian dollar, the U.K. pound Sterling, the Chilean peso, and the European euro. As a result, the Company has a certain degree of foreign currency exposure with respect to items denominated in foreign currencies. The three main types of foreign exchange risk of the Company can be categorized as follows:

#### **Investment in Foreign Operations**

All of the Company's foreign operations are considered self-sustaining. Accordingly, assets and liabilities are translated into Canadian dollars using the exchange rates in effect at the balance sheet dates. Any unrealized translation gains and losses are deferred and included in a separate component of shareholders' equity. These cumulative currency translation adjustments are recognized in income when there has been a reduction in the net investment of the foreign operations.

It is the Company's objective to hedge its net foreign investments to the greatest extent possible. The Company has hedged a significant portion of its foreign investments through foreign currency denominated loans and other derivative contracts (forward contracts and cross currency swaps). Any exchange gains or losses arising from the translation of the hedge instruments are deferred and accounted for in the cumulative currency translation adjustment account. A 5% hypothetical strengthening of the Canadian dollar relative to all other currencies from the December 2003 month end rates, assuming the same current level of hedging instruments, would result in a deferred unrealized loss of approximately \$17.9 million.

#### **Transaction Exposure**

Many of the Company's operations purchase, sell, rent, and lease products throughout the world using different currencies. This potential mismatch of currencies creates transactional exposure at the operational level, which may affect the Company's profitability as exchange rates fluctuate. It may also impact the Company's competitive position as relative currency movements affect the business practices and/or pricing strategies of the Company's competitors.

It is the Company's objective to minimize the impact of exchange rate movements and volatility in results. Each operation manages the majority of its transactional exposure through effective sales pricing policies. The Company's operations also enter into forward exchange and option contracts to manage residual mismatches in foreign currency cash flows. As a result, the foreign exchange impact on earnings with respect to transactional activity is minimal.

#### **Translation Exposure**

The most significant foreign exchange impact on the Company's net income is the translation of foreign currency based earnings into Canadian dollars each reporting period. All of the Company's foreign subsidiaries report their operating results in currencies other than the Canadian dollar. Therefore, exchange rate movements in the US dollar, U.K. pound Sterling, and Chilean peso relative to the Canadian dollar will impact the consolidated results of the U.K. and South American operations in Canadian dollar terms. In addition, the Company's Canadian results are impacted by the translation of their US dollar based earnings. The Company hedges some of its earnings translation exposure through foreign currency denominated loans and derivative contracts associated with the net investment hedges.



**Sensitivity**

The sensitivity of the Company's annual net earnings to fluctuations in average annual foreign exchange rates is summarized in the table below. The following table assumes that the Canadian dollar strengthens 5% against the currency noted, for a full year relative to the December 2003 month end rates, without any change in local currency volumes or hedging activities.

Currency	December 2003 month end rates	Increase / (decrease) in Annual Net Income (\$million)
USD	1.2924	(7)
GBP	2.3066	(6)
CHP	0.002181	2
EUR	1.6280	3

The sensitivity noted above ignores the impact of exchange rate movements on other macroeconomic variables, including overall levels of demand and relative competitive advantages. If it were possible to quantify these impacts, the results would likely be different from the sensitivities shown above.

**OTHER RISKS****Reliance on Key Supplier**

The majority of the Company's business involves the distribution and servicing of Caterpillar products. As such, the Company's business is highly dependent on the continued market acceptance of Caterpillar's products. Caterpillar has a solid reputation as a high quality manufacturer, with excellent brand recognition and high market shares in many of the markets it serves. Caterpillar has manufacturing operations throughout the world to meet customer needs. Any decrease in the demand for Caterpillar products could have a material adverse impact on the Company's business, results of operations and future prospects.

The Company is also dependent on Caterpillar for timely supply of equipment and parts. From time to time, during periods of intense demand, Caterpillar finds it necessary to allocate its supply of particular products among its dealers. Such allocations of supply have not in the past proven to be a significant impediment to the Company in the conduct of its business. Any prolonged delays in product supply may adversely affect the Company's business, results of operations and financial condition.

**Economic Conditions / Business Cyclicity**

Many of the Company's customers operate in industries that are cyclical in nature. As a result, customer demand for the Company's products and services may be affected by economic conditions on both a global or local level. Changes in interest rates, foreign exchange, commodity prices, and the level of government infrastructure spending may influence capital expenditure decisions, and ultimately the Company's sales. The Company has mitigated some of its exposure to variable business cycles by diversifying its business across a broad range of business activities, industry sectors, and geographic locations. Approximately 80% of the Company's gross margin is now generated from parts, service, and rental activities, which are significantly less sensitive to swings in commodity prices than are equipment sales. Notwithstanding the Company's extensive diversification, an economic downturn may adversely impact the Company's operating results, particularly at a regional level.

**International Operations**

The Company has significant operations outside of Canada, including the United Kingdom, Chile, Argentina, Uruguay, and Bolivia. The Company's international subsidiaries are subject to risks normally associated with the conduct of any business in foreign jurisdictions, including: uncertain political and economic environments; war, insurrection, and other civil disturbances; changes in laws, regulations, and taxation; foreign currency exchange controls; and limitations on the repatriation of earnings. These risks may limit or disrupt operations, increase costs, restrict the movement of funds, or result in the loss of property. Although the Company closely monitors its foreign investment risks, there can be no assurance that the Company will not be adversely affected by political and other events beyond its control.

### **Growth Initiatives / Integration of Acquisitions**

As part of its long-term corporate strategy, the Company intends to continue growing its business through a combination of organic growth and strategic acquisitions. The Company's ability to successfully grow its business will be dependent on a number of factors including: identification of accretive new business or acquisition opportunities; negotiation of purchase agreements on satisfactory terms and prices; approval of acquisitions by Caterpillar or other parties, including regulatory authorities; securing attractive financing arrangements; and integration of newly acquired operations into the existing business. All of these activities may be more difficult to implement or may take longer to execute than management anticipates. Further, any significant expansion of the business may increase the operating complexity of the Company, and divert management attention away from regular business activities. Any failure of the Company to manage its acquisition strategy successfully could have a material adverse impact on the Company's business, results of operations, and financial condition.

To date, the Company has been very successful in profitably managing its expansion efforts. The Company recently acquired three new Caterpillar dealerships in South America and a materials handling business in the United Kingdom. Although the Company believes integration of these operations is progressing well, there can be no assurance that the Company will fully realize the anticipated revenues, synergies, or other intended benefits associated with these or any other potential acquisitions in the future.

### **Future Warranty Claims**

The Company provides warranties for most of the equipment it sells. In many cases, the warranty claim risk is shared jointly with the equipment manufacturer. Accordingly, the Company's liability is generally limited to the service component of the warranty claim, while the manufacturer is responsible for providing the required parts. There is a risk that warranty claims may increase in the future, or may be greater than management anticipates. If the Company's liability in respect of such claims is greater than anticipated, it may have a material adverse impact on the Company's business, results of operations, and financial condition.

### **Maintenance and Repair Contracts**

The Company frequently enters into long-term maintenance and repair contracts with its customers, whereby the Company is obligated to maintain certain fleets of equipment at various negotiated performance levels. The length of these contracts varies significantly, often ranging up to five or more years. The contracts are generally fixed price, although many contracts have additional provisions for inflationary adjustments. Due to the long-term nature of these contracts, there is a risk that significant cost overruns may be incurred. If the Company has miscalculated the extent of maintenance work required, or if actual parts and service costs increase beyond the contracted inflationary adjustments, the contract profitability will be adversely affected. In order to mitigate this risk, the Company closely monitors the contracts for early warning signs of cost overruns. In addition, the manufacturer may, in certain circumstances, share in the cost overruns if profitability falls below a certain threshold. Any failure by the Company to effectively price and manage these contracts could have a material adverse impact on the Company's business, results of operations and financial condition.

### **Information Systems and Technology**

Information systems are an integral part of the Company's business processes, including marketing of equipment and support services, inventory and logistics, and finance. Some of these systems are integrated with Caterpillar's core processes and systems. In addition, Caterpillar supplies the basic dealer business system used by the Company, as well as the new dealer business system now being implemented (DBSi). The implementation of DBSi has been successfully completed in the Company's Finning (UK) operations and over time, the Company expects to implement this system in all of its other operations. The enhanced capabilities of DBSi will allow the Company to achieve further efficiencies.

The Company is dependent on Caterpillar for future development of these systems, for support for all dealer systems supplied by Caterpillar, and for hosting of the DBSi applications. Any disruptions in these systems or the failure of these systems to operate as expected could, depending on the magnitude of the problem, adversely affect the Company's operating results by limiting the ability to effectively monitor and control the Company's operations.

## NEW ACCOUNTING REQUIREMENTS

### Stock-Based Compensation

Effective January 1, 2002, Finning adopted the recommendations of The Canadian Institute of Chartered Accountants (CICA) with respect to stock-based compensation and other stock-based payments. The recommendations require stock-based payments to non-employees and direct awards to employees and non-employees be accounted for using a fair value-based method of accounting. Share appreciation rights (SAR) and similar awards to be settled in cash are accounted for by measuring the amount by which the quoted market price exceeds the strike price at the balance sheet date. The recommendations require the use of the fair value-based method to account for all other stock-based transactions with employees, including stock options, for fiscal years beginning on or after January 1, 2004 with earlier adoption encouraged.

In accordance with the recommendations of the CICA, the Company has adopted the fair value-based method of accounting for stock options in 2003, applied on a prospective basis. The Company will continue to use the intrinsic value-based method of accounting for stock options granted prior to January 1, 2003. As the Company had not issued any stock option awards to employees during the years ended December 31, 2003 and 2002, the Company's net earnings have not been impacted by the application of the new accounting policy. As options are exercised, the proceeds received by the Company are credited to share capital in the consolidated balance sheet.

### Hedging Instruments

The CICA issued a new Accounting Guideline *Hedging Relationships* in December 2001, which specifies the conditions under which hedge accounting is appropriate. The Guideline includes requirements for the identification, documentation and designation of hedging relationships, sets standards for determining hedge effectiveness, and establishes criteria for the discontinuance of hedge accounting.

The new guideline is effective for the Company's 2004 year. Adoption of the guideline is not expected to have a significant impact on the consolidated financial statements.

### Asset Retirement Obligations

In February 2002 the CICA issued a new standard, Section 3110 of the CICA Handbook *Asset Retirement Obligations*. It focuses on the recognition and measurement of liabilities for obligations associated with the retirement of property, plant and equipment when those obligations result from the acquisition, construction, development or normal operations of the assets. The standard requires the recognition of any statutory, contractual or other legal obligation, normally when incurred. The obligations are measured initially at fair value and the resulting costs capitalized into the carrying amount of the related asset. In subsequent periods, the liability is adjusted for the accretion of discount and any changes in the amount or timing of the underlying future cash flows. The asset retirement cost is amortized to income on a systematic and rational basis. Entities will be required to disclose certain key information about the liability.

The new standard is effective for fiscal years beginning on or after January 1, 2004. Finning is evaluating the impact of adopting the new recommendations.

### Impairment of Long-Lived Assets

In December 2002 the CICA issued a new standard, Section 3063 of the CICA Handbook *Impairment of Long-Lived Assets*, which establishes standards for the recognition, measurement and disclosure of the impairment of long-lived assets. Impairment of long-lived assets held for use is determined in a two-step process, with the first step determining when an impairment is recognized and the second step measuring the amount of the impairment. An impairment loss is recognized when the carrying amount of a long-lived asset exceeds the sum of the undiscounted cash flows expected to result from its use and eventual disposition. An impairment loss is measured as the amount by which the long-lived asset's carrying amount exceeds its fair value. To test for and measure impairment, long-lived assets are grouped at the lowest level for which identifiable cash flows are largely independent.

The new standard is effective for the Company's 2004 year. Adoption of the recommendations is not expected to have a significant impact on the consolidated financial statements.



FINANCIAL OUTLOOK

Economic conditions in the Company's markets are improving with economic recovery expected to continue into 2004. Our medium to long-term future prospects are excellent, given the Company's strong order backlog in most of its operations, the large new equipment sales and maintenance contracts in Chile and Argentina and the strength in the key economic indicators that impact the Company's customers.

Commodity prices for copper, gold, coal and oil and gas are expected to remain strong near current levels into 2004. Strong commodity prices bode well for our customers resulting in an increase in mining activity and new development. This is expected to provide opportunities for our operations in Canada and South America which are already evident in our strong order backlog.

The Company expects that our 2004 results will be negatively impacted as a result of translating foreign currency based earnings in the first and second quarters of 2004 in comparison to 2003 due to the strong Canadian dollar.

U.K. economic indicators forecast continued growth in 2004 with infrastructure spending being a strong component of this growth. The U.K. government forecasts significant spending over the next 10 years to repair and expand the country's highways, rails and other transportation infrastructure. This growth will provide opportunities for the Company and its customers. This growth has also resulted in a very competitive rental market in 2003 due to an overcapacity of rental equipment and downward pressures on prices.

Finning (UK) has successfully completed the implementation of DBSi in early 2004, which will increase the Company's opportunities to improve supply chain management, cost controls, asset utilization and customer relationship management. Acquiring the Lex Harvey business has made Finning (UK) a strong player in the materials handling market in the U.K. Further integration of Lex Harvey as well as the pursuit of joint efficiencies with Hewden is expected to create opportunities to improve EBIT as well as capitalizing on the infrastructure growth in the U.K.

Although the Company's results in the first and second quarters of 2004 are expected to be negatively impacted by foreign exchange translation and competitive pressures in the U.K. rental business, the Company has a strategy to mitigate these issues. The Company will focus on integrating recent acquisitions and extracting synergies in the U.K. and will continue focusing on cost controls. This, together with economic recovery in all of the Company's markets, will provide us with opportunities to grow.

January 27, 2004

## Schedule One

## RECONCILIATION OF NON-GAAP MEASURES

To supplement Finning's consolidated financial statements, Finning uses certain non-GAAP measures that do not have standardized meaning prescribed by Canadian GAAP and are therefore unlikely to be comparable to similar measures used by other companies. These non-GAAP measures are normalized net income, normalized basic earnings per share and normalized EBIT, which are not an alternative to GAAP financial measures. Finning's management believes the non-GAAP financial measures are useful to investors because they include the same meaningful information that is used by Finning management to assess the financial performance of the Company and its operating segments. In order to allow the reader to view financial results in this way, occasional or other significant items, not considered reflective of the underlying financial performance of the Company from ongoing operations, have been removed from reported results prepared in accordance with GAAP.

**Reconciliation Between Reported Fourth Quarter EBIT and Normalized Fourth Quarter EBIT**

(C\$ thousands)	Three Months ended Dec 31		Twelve Months Ended Dec 31	
	2003	2002	2003	2002
Reported EBIT (GAAP measure)	\$ 54,478	\$ 65,404	\$ 255,168	\$ 277,783
Gain on sale of surplus properties in Canada and the U.K.	(1,139)	(1,409)	(1,791)	(15,216)
Deferred gain on 2001 sale of the Canadian Materials Handling business	-	-	(1,600)	(1,600)
Costs incurred on DBSi business process reengineering project	7,691	8,440	22,104	10,264
Gain on sale of the UK Power Rental business	-	-	(13,800)	-
(Gain) loss from equity investment	(55)	626	(606)	972
Normalized EBIT (reflects non-GAAP measure)	\$ 60,975	\$ 73,061	\$ 259,475	\$ 272,203

**Reconciliation Between Reported Fourth Quarter Net Income and EPS and Normalized Fourth Quarter Net Income and EPS**

(C\$ thousands, except EPS data)	Three Months ended Dec 31		Twelve Months Ended Dec 31	
	2003	2002	2003	2002
Reported Net Income (GAAP measure)	\$ 28,079	\$ 31,227	\$ 131,951	\$ 132,253
Gain on sale of surplus properties in Canada and the U.K.	(800)	(810)	(1,248)	(11,170)
Deferred gain on 2001 sale of the Canadian Materials Handling business	-	-	(1,288)	(1,079)
Costs incurred on DBSi business process reengineering project	5,447	5,527	15,352	6,649
Gain on sale of the UK Power Rental business	-	-	(9,168)	-
(Gain) loss from equity investment	(55)	626	(606)	972
Normalized Net Income (reflects non-GAAP measure)	\$ 32,671	\$ 36,570	\$ 134,993	\$ 127,625
Normalized Basic EPS (reflects non-GAAP measure)	\$ 0.42	\$ 0.47	\$ 1.75	\$ 1.66

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Schedule Two

#### SELECTED FINANCIAL INFORMATION

(C\$ million, except for share data)	2003 <sup>(1)</sup>	2002 <sup>(2)</sup>	2001 <sup>(3)</sup>
Total revenue	\$ 3,593.3	\$ 3,207.5	\$ 3,247.0
Net income	\$ 132.0	\$ 132.3	\$ 103.9
Earnings per common share			
- basic	\$ 1.71	\$ 1.72	\$ 1.37
- diluted	\$ 1.68	\$ 1.68	\$ 1.34
Total assets	\$ 3,428.6	\$ 3,162.5	\$ 3,116.8
Long-term debt <sup>(4)</sup>			
- current	\$ 235.2	\$ 42.3	\$ 133.0
- non-current	748.2	514.1	540.8
	\$ 983.4	\$ 556.4	\$ 673.8
Cash dividends declared per common share	\$ 0.36	\$ 0.30	\$ 0.20

(1) During 2003, the Company acquired the Caterpillar dealerships in Argentina, Uruguay and Bolivia and the materials handling business of Lex Harvey in the U.K.

(2) During 2002, the Company acquired the majority of the remaining rental assets of Maxxiom Limited in the U.K., and acquired 100% of the voting shares of Distribuidora Perkins Chilena SAC (Diperk), in Chile.

(3) During 2001, the Company acquired Hewden, an equipment rental and related services business.

(4) During 2003, the Company issued a 10-year, unsecured £200 million Eurobond. The Eurobond bears coupon interest at 5.625% per annum and was priced at 99.043% of its principal amount to yield 5.753% per annum. The Eurobond proceeds of \$449.5 million at the date of issuance were utilized to finance the acquisition of Lex Harvey as well as repaying existing bank indebtedness.

#### OUTSTANDING SHARE DATA

##### December 31, 2003

Common shares outstanding	77,754,985
Options outstanding	2,745,620

A shareholders' rights plan is in place which is intended to provide all holders of common shares with the opportunity to receive full and fair value for all of their shares in the event a third party attempts to acquire a significant interest in the Company. The Company's dealership agreements with subsidiaries of Caterpillar Inc. are fundamental to its business and any change in control must be approved by Caterpillar Inc.

The plan provides that one share purchase right has been issued for each common share and will trade with the common shares until such time as any person or group, other than a permitted bidder, bids to acquire or acquires 20% or more of the Company's common shares. The rights may also be triggered by a third party proposal for a merger, amalgamation or a similar transaction. The rights plan will expire at the termination of the Annual Meeting of shareholders to be held in April 2005 unless it is reconfirmed by a majority of the votes cast at the meeting.

The plan will not be triggered if a bid meets certain criteria (a permitted bidder). These criteria include that:

- the offer is made for all outstanding voting shares of the Company;
- more than 50% of the voting shares have been tendered by independent shareholders pursuant to the Takeover Bid (voting shares tendered may be withdrawn until taken up and paid for); and
- the Takeover Bid expires not less than 60 days after the date of the bid circular.



## MANAGEMENT'S REPORT TO THE SHAREHOLDERS

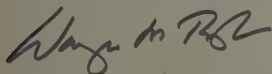
The Consolidated Financial Statements and Management's Discussion and Analysis (MD&A) of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles and necessarily include some amounts that are based on management's best estimates and judgement of all information available up to January 27, 2004.

The Company maintains an accounting system and related controls to provide management with reasonable assurance that transactions are executed and recorded in accordance with its authorizations, that assets are properly safeguarded and accounted for, and that financial records are reliable for preparation of financial statements.

The Company's independent auditors express an opinion as to whether management's financial statements present fairly the Company's financial position, operating results and cash flow in accordance with Canadian generally accepted accounting principles.

The Audit Committee of the Board of Directors, consisting solely of outside directors, meets regularly during the year with financial officers of the Company and the external auditors to review internal accounting controls, risk management, audit results, quarterly financial results and accounting principles and practices. In addition, the Audit Committee reports its findings to the Board of Directors, which reviews and approves the Consolidated Financial Statements contained in this Annual Report.

The financial statements and MD&A have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized in Note 1 of the Notes to Consolidated Financial Statements. Financial information elsewhere in this Annual Report is consistent with that in the financial statements.



W. M. Bingham  
Executive Vice President and Chief Financial Officer

January 27, 2004  
Vancouver, BC Canada


## AUDITOR'S REPORT

To the Shareholders of Finning International Inc.:

We have audited the consolidated balance sheets of Finning International Inc. (a Canadian corporation) as at December 31, 2003 and 2002 and the consolidated statements of income, retained earnings and cash flow for each of the years in the two year period ended December 31, 2003. These Consolidated Financial Statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these Consolidated Financial Statements based on our audit.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the Consolidated Financial Statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Consolidated Financial Statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Consolidated Financial Statement presentation.

In our opinion, these Consolidated Financial Statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and 2002, and the results of its operations and its cash flow for each of the years in the two year period ended December 31, 2003 in accordance with Canadian generally accepted accounting principles.



DELOITTE & TOUCHE LLP, Chartered Accountants

January 27, 2004  
Vancouver, BC Canada

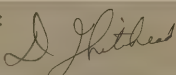
# CONSOLIDATED FINANCIAL STATEMENTS


CHARRON-WHITEHEAD LIMITED (NOTES TO CONSOLIDATED FINANCIAL STATEMENTS)

(C\$ thousands)

	2003	2002
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and short-term investments	\$ 66,385	\$ 34,626
Accounts receivable	481,397	465,601
Inventories		
On-hand equipment	438,715	402,316
Parts and supplies	270,984	248,093
Other assets	98,379	107,352
Future income taxes (Note 2)	35,133	15,698
Current portion of instalment notes receivable	25,944	13,926
Total current assets	1,416,937	1,287,612
<b>Finance assets</b>		
Instalment notes receivable	7,145	13,410
Equipment leased to customers (Note 3)	97,925	197,115
Total finance assets	105,070	210,525
Rental equipment (Note 4)	1,046,130	897,891
Land, buildings and equipment (Note 5)	287,778	257,200
Future income taxes (Note 2)	39,344	35,863
Goodwill (Note 7)	393,109	379,866
Intangible assets (Note 7)	9,692	2,300
Other assets (Note 11)	130,550	91,290
	\$ 3,428,610	\$ 3,162,547
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Short-term debt (Note 9)	\$ 104,910	\$ 258,140
Accounts payable and accruals	848,888	868,069
Income tax payable	8,884	39,068
Future income taxes (Note 2)	5,711	8,186
Current portion of long-term debt (Note 9)	235,243	42,324
Total current liabilities	1,203,636	1,215,787
Long-term debt (Note 9)	748,181	514,051
Future income taxes (Note 2)	93,212	77,349
Total liabilities	2,045,029	1,807,187
Commitments and Contingencies (Notes 21 and 22)		
Long-term debt (Note 10)	425,000	425,000
<b>Shareholders' Equity</b>		
Share capital (Note 12)	248,939	233,450
Retained earnings	775,113	699,741
Cumulative currency translation adjustments (Note 13)	(65,471)	(2,831)
Total shareholders' equity	958,581	930,360
	\$ 3,428,610	\$ 3,162,547

Approved by the Directors:

  
D.W.G. Whitehead, Director

  
C.A. Pinette, Director

# CONSOLIDATED FINANCIAL STATEMENTS

## CONSOLIDATED STATEMENTS OF INCOME AND RELATED EXPENSES FOR THE YEARS ENDED DECEMBER 31

(C\$ thousands except per share amounts)

	2003	2002
Revenue		
New mobile equipment	\$ 966,042	\$ 825,301
New power & energy systems	262,352	192,036
Used equipment	363,549	329,661
Equipment rental	821,315	744,506
Operating leases	65,925	87,610
Customer support services	1,109,571	1,019,184
Finance and other	4,541	9,188
Total revenue	3,593,295	3,207,486
Cost of sales	2,555,682	2,247,760
Gross profit	1,037,613	959,726
Selling, general and administrative expenses	778,138	687,523
Other expenses (income) (Note 14)	4,307	(5,580)
Earnings before interest, income taxes and non-controlling interests	255,168	277,783
Finance cost and interest on other indebtedness (Notes 9 and 17)	76,868	79,828
Income before provision for income taxes and non-controlling interests	178,300	197,955
Provision for income taxes (Note 2)	26,648	47,730
Non-controlling interests (Note 10)	19,701	17,972
Net income	\$ 131,951	\$ 132,253
Retained earnings, beginning of year	\$ 699,741	\$ 590,588
Net income	131,951	132,253
Dividends on common shares	(27,816)	(23,100)
Premium on common share repurchase (Note 12)	(28,763)	-
Retained earnings, end of year	\$ 775,113	\$ 699,741
Earnings per share (Note 15)		
Basic	\$ 1.71	\$ 1.72
Diluted	\$ 1.68	\$ 1.68
Weighted average number of shares outstanding	77,326,253	76,954,609



# **CONSOLIDATED FINANCIAL STATEMENTS**

## **CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31**

(C\$ thousands)

	2003	2002
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 131,951	\$ 132,253
Add		
Depreciation	354,959	314,993
Future income taxes	17,256	11,227
Other items	(17,797)	(15,844)
Non-controlling interests distribution	19,701	17,972
	506,070	460,601
Changes in working capital items		
Accounts receivable and other	(38,828)	(90,680)
Inventories - on-hand equipment	(37,027)	29,472
Inventories - parts and supplies	(4,593)	(10,954)
Instalment notes receivable	(5,030)	21,664
Accounts payable and accruals	13,612	41,148
Income taxes	(49,994)	21,553
Cash provided after changes in working capital items	384,210	472,804
Rental equipment, net of disposals	(312,881)	(280,116)
Equipment leased to customers, net of disposals	51,325	(25,625)
Cash flow from operating activities	122,654	167,063
<b>INVESTING ACTIVITIES</b>		
Net cash invested in land, buildings and equipment	(63,600)	(6,853)
Proceeds from UK Power Rental sale	34,056	-
Divestiture of Hewden Tower Cranes business	-	44,219
Proceeds from Canadian property sale/leaseback	-	77,049
Equity investment	-	(15,000)
Acquisitions (Note 6)	(284,805)	(50,308)
Cash (used) provided by investing activities	(314,349)	49,107
<b>FINANCING ACTIVITIES</b>		
Decrease in short-term debt	(149,700)	(192,202)
Repayment of long-term debt	(29,843)	(120,768)
Issue of Eurobond (Note 9)	449,520	-
Cash funding of pension plans	-	(39,682)
Securitization of Canadian accounts receivable	-	30,000
Sales of notes portfolio	-	88,606
Non-controlling interests distribution	(19,701)	(17,972)
Issue of common shares on exercise of stock options	19,538	21,328
Repurchase of common shares	(32,812)	-
Dividends paid	(27,816)	(23,100)
Cash provided (used) by financing activities	209,186	(253,790)
Currency translation adjustments	14,268	(5,736)
Increase (decrease) in cash and short-term investments	31,759	(43,356)
Cash and short-term investments at beginning of year	34,626	77,982
Cash and short-term investments at end of year	\$ 66,385	\$ 34,626
<b>Cash flows include the following elements</b>		
Interest paid	\$ 59,900	\$ 80,563
Income taxes paid	\$ 35,297	\$ 29,420

December 31, 2003 and 2002 (\$ and £ in thousands, except the number of shares and per share amounts)

#### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These Consolidated Financial Statements have been prepared in accordance with Canadian generally accepted accounting principles and are presented in Canadian dollars, unless otherwise stated.

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and disclosure of contingent assets and liabilities. Actual amounts could differ from those estimates. The significant accounting policies used in these Consolidated Financial Statements are as follows:

##### (a) Principles of Consolidation

The Consolidated Financial Statements include the accounts of Finning International Inc. ("Finning" or "Company"), which includes the division of Finning (Canada), and its wholly owned subsidiaries. Principal operating subsidiaries include Finning (UK) Ltd., Finning Chile S.A., and Hewden Stuart plc ("Hewden") as well as the Caterpillar dealerships in Argentina, Uruguay and Bolivia (Note 6). In addition, Finning consolidates the partnership that was formed to fund the acquisition of Hewden (Note 10).

For interests acquired or disposed of during the year, the results of operations are included in the consolidated statements of income from, or up to, the date of the transaction, respectively.

##### (b) Currency Translation

Transactions undertaken in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the time the transactions occurred. Account balances denominated in foreign currencies are translated into Canadian dollars as follows:

- Monetary assets and liabilities are translated at exchange rates in effect at the balance sheet dates and non-monetary items are translated at historical exchange rates.
- Exchange gains and losses are included in income except where the exchange gain or loss arises from the translation of monetary liabilities designated as hedges, in which case the gain or loss is deferred and accounted for in conjunction with the hedged asset.

Financial statements of foreign operations, all considered self-sustaining, are translated into Canadian dollars as follows:

- Assets and liabilities are translated using the exchange rates in effect at the balance sheet dates.
- Revenue and expense items are translated at average exchange rates prevailing during the period that the transactions occurred.
- Unrealized translation gains and losses are deferred and included as a separate component of shareholders' equity.

These cumulative currency translation adjustments are recognized in income when there is a reduction in the net investment in the self-sustaining foreign operation.

The Company has hedged some of its investments in foreign subsidiaries using derivatives and foreign denominated borrowings. Exchange gains or losses arising from the translation of the hedge instruments are accounted for in cumulative currency translation adjustments.

##### (c) Cash and Short-Term Investments

Short-term investments, consisting of highly rated money market instruments with original maturities of three months or less, are considered to be cash equivalents and are recorded at cost, which approximates current market value.

##### (d) Securitization of Trade Receivables

In 2002, the Company sold a co-ownership interest in certain present and future accounts receivable in Canada to a securitization trust. These transactions are accounted for as sales to the extent that the Company is considered to have surrendered control over the interest in the accounts receivables and receives proceeds from the trust, other than a beneficial interest in the assets sold. Losses on these transactions are recognized as other expenses and are dependent in part on the previous carrying amount of the receivable interest transferred, which is allocated between the interest sold and the interest retained by the Company, based on their relative value at the date of the transfer. The Company determines fair value based on the present value of future expected cash flows using management's best estimates of key assumptions such as discount rates, weighted average life of accounts receivable, dilution rates and credit loss ratios. The receivable interest is transferred on a fully serviced basis. The Company recognizes a servicing liability on the date of the transfer and amortizes this liability to income over the expected life of the transferred receivable interest.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### (e) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined on a specific item basis for on-hand equipment. For approximately two-thirds of parts and supplies, cost is determined on a first-in, first-out basis. An average cost basis is used for the remainder.

### (f) Instalment Notes Receivables

Instalment notes receivables are recorded net of unearned finance charges.

### (g) Equipment Leased to Customers

Depreciation of equipment leased to customers is provided in equal monthly amounts over the terms of the individual leases after recognizing the estimated residual value of each unit at the end of each lease.

### (h) Rental Equipment

Rental equipment is recorded at cost, net of accumulated depreciation. Cost is determined on a specific item basis. Rental equipment is depreciated to its estimated residual value over its estimated useful life on a straight-line or on an actual usage basis.

### (i) Land, Buildings and Equipment

Land, buildings and equipment are recorded at cost, net of accumulated depreciation.

Buildings and equipment are depreciated over their estimated useful lives on either a declining balance or straight-line basis using the following annual rates:

Buildings	2% - 5%
General equipment	20% - 30%
Automotive equipment	25% - 30%

### (j) Revenue Recognition

Revenue recognition, with the exception of cash sales, includes obtaining a written arrangement in the form of a contract or purchase order with the customer. A fixed or determinable sales price is established with the customer whereby ultimate collection of the revenue is reasonably assured. Revenue is recognized as performance requirements are achieved in accordance with the following:

Revenue from sales of equipment is recognized at the time of shipment of the product to the customer at which time title to the equipment and significant risks of ownership passes to the customer;

Revenue from power and energy systems includes construction contracts with customers that involve the design, installation and assembly of power and energy equipment systems. Revenue is recognized on a percentage of completion basis proportionate to the work that has been completed which is based on associated costs incurred;

Revenue from equipment rentals and operating leases is recognized in accordance with the terms of the relevant agreement with the customer, either evenly over the term of that agreement or on a usage basis such as the number of hours that the equipment is used; and

Revenue from customer support services includes sales of parts and servicing of equipment. For sales of parts, revenue is recognized when the part is shipped to the customer or when the part is installed in the customer's equipment. For servicing of equipment, revenue is recognized as the service work is performed. Customer support services are also offered to customers in the form of long-term maintenance and repair contracts. For these contracts, revenue is recognized on a percentage of completion basis proportionate to the service work that has been performed based on the parts and labour service provided. Parts revenue is recognized based on parts list price and service revenue is recognized based on standard billing labour rates. At the completion of the contract, any remaining deferred revenue on the contract is recognized as revenue. Any losses estimated during the term of the contract are recognized when identified. For the materials handling business, revenue from long-term maintenance and repair contracts is recognized on a straight-line basis over the life of the contract.

### (k) Stock-Based Compensation

The Company has stock option plans and other stock-based compensation plans for directors and certain eligible employees. Effective January 1, 2002, the Company adopted the recommendations of The Canadian Institute of Chartered Accountants (CICA) with respect to stock-based compensation and other stock-based payments. The recommendations require stock-based payments to non-employees and direct awards to employees and non-employees be accounted for using a fair value-based method of accounting. Share appreciation rights (SAR) and similar awards to be settled in cash are accounted for by measuring the amount by which the quoted market price



exceeds the strike price at the balance sheet date. The recommendations require the use of the fair value-based method to account for all other stock-based transactions with employees, including stock options, for fiscal years beginning on or after January 1, 2004 with earlier adoption encouraged.

The Company accounts for SAR by measuring the amount by which the quoted market price exceeds the strike price at the balance sheet date. Changes in the quoted market value of those shares between the date of the grant and the measurement date result in a change in the measure of compensation for the award and is amortized over the remaining vesting period.

In accordance with the recommendations of the CICA, the Company has adopted the fair value-based method of accounting for stock options in 2003, applied on a prospective basis. The Company will continue to use the intrinsic value-based method of accounting for stock options granted prior to January 1, 2003. As the Company had not issued any stock option awards to employees during the years ended December 31, 2003 and 2002, the Company's net earnings have not been impacted by the application of the new accounting policy. When options are exercised, the proceeds received by the Company are credited to share capital in the consolidated balance sheet.

Changes in the Company's obligations under other stock-based compensation plans, which arise from fluctuations in the market price of the Company's common shares underlying these compensation plans, are recorded in selling, general and administrative expense in the consolidated statement of income with a corresponding accrual in the consolidated balance sheet.

#### **(l) Employee Benefits**

The Company and its subsidiaries have a number of defined benefit and defined contribution plans providing pension and other benefits to most of its employees in the Canadian and the U.K. operations. The Company accrues its obligations under employee benefit plans and the related costs, net of plan assets and has adopted the following policies:

**Defined benefit plans:** For the purpose of calculating the expected return on plan assets, those assets are valued at fair value. The cost of pensions and other retirement benefits is determined by independent actuaries using the projected benefit method prorated on service and management's best estimates of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs.

Past service costs from plan amendments are amortized on a straight-line basis over the expected average remaining service life of employees active at the date of amendment.

The excess of net actuarial gains or losses over 10% of the greater of the benefit obligation and the fair value of the plan assets are amortized on a straight-line basis over the expected average remaining service life of the active employees covered by the plans.

**Defined contribution plans:** The cost of pension benefits includes the current service cost based on a fixed percentage of member earnings for the year.

#### **(m) Goodwill and Other Intangible Assets**

Goodwill represents the excess cost of an investment over the fair value of the net assets acquired. Goodwill and intangible assets with indefinite lives are not amortized and are subject to an annual assessment for impairment primarily by applying a fair value-based test at the reporting unit level. The fair value is estimated using the expected present value of future discounted cash flows. The Company also considers projected future operating results, trends and other circumstances in making such evaluations. An impairment loss would be recognized to the extent the carrying amount of goodwill exceeds the fair value of goodwill. Separable intangible assets that are not deemed to have an indefinite life are amortized on a straight-line basis over their useful lives to a maximum period of ten years. The Company did not recognize any impairment to goodwill as a result of the annual impairment assessment.

#### **(n) Income Taxes**

The asset and liability method of tax allocation is used in accounting for income taxes. Under this method, temporary differences arising from the difference between the tax basis of an asset and a liability and its carrying amount on the balance sheet are used to calculate future income tax assets or liabilities. Future income tax assets or liabilities are calculated using tax rates anticipated to be in effect in the periods that the temporary differences are expected to reverse. The effect of a change in income tax rates on future income tax assets and liabilities is recognized in income in the period that the change occurs.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### (o) Guarantees and Indemnifications

Effective January 1, 2003, the Company adopted CICA Accounting Guideline 14 *Disclosure of Guarantees*. The Guideline requires the guarantor to disclose information about its significant obligations under guarantees, including the nature of the guarantee, the maximum exposure under the guarantee, the current carrying amount of any liability for the guarantee, and any recourse provisions allowing the guarantor to recover from third parties any amounts paid under the guarantee. See Note 23 for additional information.

### (p) Derivatives

The Company utilizes derivative financial instruments in the management of its foreign currency and interest rate exposures. The Company uses financial instruments such as interest rate swaps, cross-currency swaps, forward exchange contracts and options as hedges against actual underlying exposures. Derivative financial instruments are always associated with a related risk position and are never used for trading or speculative purposes. The Company's policy is to utilize derivative financial instruments for hedging purposes only. The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The Company enters into hedges of its foreign currency exposures on foreign currency denominated long-term investments by entering into offsetting forward exchange contracts and cross-currency swap contracts, when it is deemed appropriate. Foreign exchange translation gains and losses on foreign currency denominated derivative financial instruments used to hedge foreign currency long-term investments are accrued under current liabilities on the balance sheet and recognized in the cumulative currency translation account, offsetting the respective translation losses and gains recognized on the underlying foreign currency long-term investments. The forward premium or discount on forward foreign exchange contracts used to hedge foreign currency long-term investments is amortized as an adjustment of interest expense over the term of the forward contract.

The Company also purchases foreign exchange forward contracts to hedge anticipated purchases in foreign currencies and the related accounts payables. Foreign exchange translation gains and losses on foreign currency denominated derivative financial instruments used to hedge foreign currency denominated purchases are recognized as an adjustment of the purchase cost and related payable when the purchase is recorded.

The Company has a policy of arranging its financing so that the fixed rate financing offered to its customers on its lease and notes portfolio is matched by fixed rate borrowings. As well, the portfolio is matched on currency and term. To meet this objective, the Company enters into interest rate swap agreements, which fix the effective interest rate and currency of the borrowing. The Company also enters into interest rate swaps to manage its fixed and floating interest rate exposure. The Company designates its interest rate hedge agreements as hedges of the underlying debt or asset. Interest expense on the debt is adjusted to include the payments made or received under the interest rate swaps.

Realized and unrealized gains or losses associated with derivative instruments, which have been terminated or cease to be effective prior to maturity, are deferred under current liabilities on the balance sheet and recognized in income in the period in which the underlying hedged transaction is recognized. In the event a designated hedged item is sold, extinguished or matures prior to the termination of the related derivative instrument, any realized or unrealized gain or loss on such derivative instrument is recognized in income.

### (q) Change in Functional Currency

It is management's view that the United States dollar best portrays the economic results of all the South American operations and thereby best achieves the objectives of foreign currency translation. As a result, effective October 1, 2003, the functional currency of the Chilean operation was changed from the Chilean peso to the United States dollar to reflect the increased exposure to the US dollar as a result of the growth in international operations. The method used to translate the results and financial position for items and transactions denominated in non-US currency is described in the notes above on currency translation. The Company has applied the functional currency change for the Chilean operation on a prospective basis as of the beginning of the fourth quarter. The net effect of this change in functional currency for the three months ended December 31, 2003 was to decrease net assets by \$18,300 and increase the net income reported by approximately \$3,587.

### (r) Comparative Figures

Certain comparative figures have been reclassified to conform to the 2003 presentation.

## 2. INCOME TAXES

## Provision for Income Taxes

## For the years ended December 31

	2003	2002
Current income tax expense	\$ 9,392	\$ 36,503
Future income tax expense	17,256	11,227
	\$ 26,648	\$ 47,730

Reconciliation of the Company's effective income tax rate from statutory Canadian tax rates for the years ended December 31, 2003 and 2002 is as follows:

## For the years ended December 31

	2003	2002
Combined federal and provincial tax rates	37.1%	38.6%
Provision for income taxes based on the combined federal and provincial rates	\$ 58,840	\$ 69,473
Increase/(decrease) in provision resulting from:		
Lower effective rates on the losses/(earnings) of foreign subsidiaries	(29,206)	(24,411)
Large corporation tax	1,741	2,075
Income not subject to tax	(433)	(2,853)
Other items	(4,294)	3,446
Provision for income taxes	\$ 26,648	\$ 47,730

At December 31, 2003, the Company has loss carry-forwards of approximately \$14,420 for income tax purposes that expire through 2010. For financial reporting purposes a deferred tax asset of \$3,195 has been recognized in respect of these loss carry-forwards.

## Future Income Tax Asset and Liability

Temporary differences and tax loss carry-forwards that give rise to future income tax assets and liabilities are described below.

## December 31

	2003	2002
Future income tax assets	\$ 75,156	\$ 62,706
Future income tax liabilities:		
Capital, rental and leased assets, inventories and reserves	(78,713)	(72,699)
Pensions	(18,104)	(18,043)
Other	(2,785)	(5,938)
	(99,602)	(96,680)
Net future income tax liability	\$ (24,446)	\$ (33,974)

## Presented on balance sheet as:

Future income tax asset - current	\$ 35,133	\$ 15,698
Future income tax asset - non-current	39,344	35,863
Future income tax liability - current	(5,711)	(8,186)
Future income tax liability - non-current	(93,212)	(77,349)
	\$ (24,446)	\$ (33,974)

## 3. EQUIPMENT LEASES TO CUSTOMERS

## December 31

	2003	2002
Cost	\$ 159,735	\$ 309,828
Less accumulated depreciation	(61,810)	(112,713)
	\$ 97,925	\$ 197,115

Depreciation of equipment leased to customers for the year ended December 31, 2003 was \$48,588 (2002: \$61,885).

During 2003, the Company sold \$63,605 of leases to Caterpillar Financial Services Limited (2002: \$22,673), earning income of \$10,203 (2002: \$2,679).



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 6. RENTAL EQUIPMENT

December 31	2003	2002
Cost	\$ 1,821,314	\$ 1,661,256
Less accumulated depreciation	(775,184)	(763,365)
	\$ 1,046,130	\$ 897,891

Depreciation of rental equipment for the year ended December 31, 2003 was \$275,320 (2002: \$223,460).

### 7. LAND, BUILDINGS AND EQUIPMENT

December 31	2003	2002
Land	\$ 58,692	\$ 57,464
Buildings and equipment	432,186	410,141
Less accumulated depreciation	(203,100)	(210,405)
	229,086	199,736
Total land, buildings and equipment	\$ 287,778	\$ 257,200

Depreciation of buildings and equipment for the year ended December 31, 2003 was \$31,051 (2002: \$29,648).

During 2002, the Company sold its interest in various properties in its Canadian operation across Alberta and British Columbia and leased them back for a 20-year term. The total proceeds were \$77,049, resulting in a gain of \$10,281. This gain has been deferred and is being amortized to income over the lease term.

### 8. ACQUISITIONS

During 2003, the Company acquired the Caterpillar dealership operations in Argentina, Uruguay, and Bolivia and a materials handling business in the U.K. The purchases of these operations are accounted for under the purchase method of accounting. The allocation of the purchase price to the materials handling business in the U.K. is preliminary and may be adjusted when additional information on asset and liability valuations becomes available.

	Argentina and Uruguay (a)	Bolivia (b)	UK Operations: Lex Harvey (c)	Combined
Total assets	\$ 91,915	\$ 18,043	\$ 190,871	\$ 300,829
Total liabilities	(37,981)	(5,842)	(21,274)	(65,097)
Goodwill (Note 7)	953	2,123	38,236	41,312
Intangible assets (Note 7)	2,935	—	4,826	7,761
Net assets acquired	57,822	14,324	212,659	284,805
Less: assumed debt	(14,497)	(5,416)	—	(19,913)
Total purchase price	\$ 43,325	\$ 8,908	\$ 212,659	\$ 264,892

(a) In January 2003, the Company completed its acquisition of 100% of the voting shares of Macrosa Del Plata S.A. and Servicios Mineros S.A., the Caterpillar dealerships in Argentina and General Machinery Co S.A., the Caterpillar dealership in Uruguay. The purchase price of \$43,325 (US\$27,951) was financed through debt. The sellers are also entitled to additional future consideration, to a maximum of US\$20,000, based on realization of certain performance criteria over a six-year period ending December 31, 2008 for these operations. This other consideration will be accrued as a cost of the acquisition if and when the performance criterion is achieved.

(b) In April 2003, the acquisition of 100% of the voting shares of Matreq S.A., the Bolivian Caterpillar dealership was completed. The purchase price of \$8,908 (US\$6,000) was financed through debt. In addition, other consideration of \$5,938 (US\$4,000) was advanced to the seller and is contingent upon certain future performance criteria of this operation extending to the end of 2010. This other consideration is recorded in other assets.

(c) In June 2003, the Company, through its UK operation, acquired the materials handling business and majority of the assets of Lex Harvey Limited and its associated company (Lex Harvey) from RAC plc, a publicly listed company in the U.K. The results from Lex Harvey have been integrated and reported within the UK operation results. The aggregate purchase price of \$212,659 (£94,616) was funded through debt.

During 2002, the Company, through Hewden, acquired the majority of the remaining rental assets of Maxxiom Limited in the U.K. for \$44,025. In April 2002, the Company, through Finning Chile S.A., acquired 100% of the voting shares of Distribuidora Perkins Chilena SAC (Diperk), an engine and generator set distribution company located in Chile and its complementary service operation in Chile for \$6,283.

#### 7. GOODWILL AND OTHER INTANGIBLE ASSETS

December 31	2003	2002
<b>Goodwill</b>		
Goodwill, beginning of year	\$ 379,866	\$ 405,744
South America and Lex Harvey acquisitions	41,312	-
Other acquisitions	1,963	1,483
Purchase price adjustments	-	(53,699)
Divestitures	(452)	(8,984)
Foreign exchange translation adjustment	(29,580)	35,322
Goodwill, end of year	\$ 393,109	\$ 379,866
<b>Intangible Assets</b>		
Intangible assets, beginning of year	\$ 2,300	\$ -
South America and Lex Harvey acquisitions	7,761	-
Other acquisitions	1,043	2,300
Foreign exchange translation adjustment	(347)	-
Intangible assets, end of year	10,757	2,300
Accumulated amortization	(1,065)	-
Net intangible assets	\$ 9,692	\$ 2,300

During 2003, the Company acquired certain Caterpillar dealership operations in Argentina, Uruguay and Bolivia for a total purchase price of \$52,233, resulting in goodwill of \$3,076 and intangible assets in Argentina, representing customer contracts and the related customer relationships, of \$2,935. The Argentina intangible assets will be amortized over 4 years. The Company also acquired the business and assets of Lex Harvey for a total purchase price of \$212,659, resulting in goodwill of \$38,236 and intangible assets, representing customer contracts and the related customer relationships, of \$4,826. The Lex Harvey intangible assets will be amortized over 10 years. Other acquisitions in 2003 of smaller rental operations in Canada and Hewden provided goodwill of \$1,963.

During 2002, the Company acquired Diperk for a net total of \$6,283 with resulting goodwill of \$1,459. The residual value of goodwill in 2002 relates to acquisition of smaller rental operations in Canada.

The Company recorded various liabilities and provisions at the date of acquisition of Hewden in 2001 based on the preliminary allocation of the purchase price. In 2002, the Company completed its assessment of the final purchase price allocation of Hewden. The resulting purchase price adjustment reduced goodwill by \$53,699.

During 2002, Hewden sold its Tower Cranes business. Tangible assets associated with the business were \$22,000 and the disposal resulted in a reduction of goodwill of \$8,984.

#### 8. INVESTMENTS

During 2003, the Company invested \$6,755 to acquire a 15.17% ownership interest in Energyst Rental Solutions (SM) (Energyst), a newly established company offering energy rental services to national and international customers across Europe. As part of this transaction, the Company's UK operation sold its power rental business to Energyst for \$34,056 with a resulting after-tax gain of \$9,168. The investment in Energyst is accounted for using the cost method and is reported in other assets on the consolidated balance sheet.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 9. SHORT-TERM AND LONG-TERM DEBT

December 31	2003	2002
Short-term debt:		
Bank indebtedness, commercial paper and other loans (a)	\$ 104,910	\$ 258,140
Long-term debt:		
Debentures (b)		
8.35% due March 22, 2004	\$ 75,000	\$ 75,000
7.75% due November 1, 2004	150,000	150,000
6.60% due December 8, 2006	75,000	75,000
7.40% due June 19, 2008	200,000	200,000
5.625 % Eurobond due May 30, 2013 (c)	461,320	-
Bank term facilities denominated in pound Sterling (d)	-	38,183
Other unsecured term loans due 2004 to 2006 (e)	22,104	18,192
	983,424	556,375
Less current portion of long-term debt	235,243	42,324
Total long-term debt	\$ 748,181	\$ 514,051

### (a) Bank indebtedness, commercial paper and other loans

The Company has available \$1,016,000 in unsecured short-term credit facilities. Borrowings under the credit facilities are at floating rates of interest at a margin over Canadian dollar bankers' acceptance yields, and U.S. and U.K. LIBOR rates. In addition, the Company has a Canadian commercial paper program for \$300,000 which can be issued against the available credit amount. Included in short-term debt are foreign currency amounts of US\$55,190 (2002: US\$6,885) and £14,070 (2002: £89,584).

### (b) Debentures

The Company's debentures are unsecured, and interest is payable semi-annually with principal due on maturity.

### (c) Eurobond

On May 30, 2003 the Company issued a 10-year unsecured £200,000 Eurobond, bearing coupon interest at 5.625% per annum, payable annually commencing May 30, 2004. The Eurobond was priced at 99.043% of its principal amount to yield 5.753 % per annum. Proceeds of \$449,500 from the Eurobond at the date of issuance were used to finance the acquisition of Lex Harvey and also to repay existing bank indebtedness. Unless previously redeemed or cancelled, the Eurobond will be redeemed at its principal amount on May 30, 2013. The Eurobond is subject to early redemption, in whole, at its principal amount, at the option of the Company in the event of certain changes in tax legislation in Canada and/or the Province of British Columbia. The Eurobond may also be redeemed at the option of the Company, in whole, at any time, at the redemption price indicated in the Eurobond prospectus.

### (d) Bank term facilities denominated in pound Sterling

The Company had an unsecured £15,000 floating rate loan at an average interest rate of 4.21% (2002: 4.44%), which matured May 25, 2003. During 2002, a £25,000 fixed rate loan at an interest rate of 7.675% matured.

### (e) Other unsecured term loans

Other unsecured term loans primarily consist of supplier merchandising programs at a floating rate of interest based on Canadian dollar bankers' acceptance yields.

## Covenants

The Company is required to meet various covenants with respect to its debt facilities. As at December 31, 2003, the Company is in compliance with these covenants.

## Long-Term Debt Repayments

Principal repayments on long-term debt in each of the next five years and thereafter are as follows:

2004	\$ 235,243
2005	8,758
2006	78,103
2007	-
2008	200,000
Thereafter	461,320
	\$ 983,424



**Finance Cost and Interest**

Finance cost and interest on other indebtedness as shown on the consolidated statement of income is comprised of the following elements:

	2003	2002
Interest on debt securities:		
Bank indebtedness, commercial paper and other loans	\$ 8,012	\$ 14,267
Debentures	37,637	37,637
Eurobond	15,141	-
Bank term facilities	931	5,440
	61,721	57,344
Interest on swap contracts	13,074	18,127
Amortization of deferred financing costs and other expenses	2,073	4,357
	\$ 76,868	\$ 79,828

Interest expense includes interest on debt incurred for a term greater than one year of \$53,832 (2002: \$43,077).

**10. NON-CONTROLLING INTERESTS**

In 2001, the Company formed a partnership with third party private investors to raise capital to fund the acquisition of Hewden. The private investors injected \$425,000 into the partnership in return for non-controlling partnership interests. A subsidiary of the Company is the general partner in the partnership. The partnership interest is reported as non-controlling interests on the financial statements and distributions on the partnership interest are accounted for as distributions to non-controlling interests. The financial position, results of operations and cash flows of the partnership are consolidated with the Company from its date of inception.

Through their partnership interest, the private investors have a preferred interest in the shares of Hewden ranking in priority to the debt securities issued by the Company. The return to which the private investors are entitled is limited to a quarterly distribution on their partnership interests, which is calculated with reference to Canadian dollar bankers' acceptances. The distributions to the non-controlling interests totalled \$19,701 in 2003 (2002: \$17,972). At the end of five years, the yield on the partnership interest will be renegotiated. If no agreement on a new yield is reached, the private investors have the right to sell their partnership interests. The partnership has a maximum life of 75 years but may be liquidated earlier if the partnership and the Company fail to agree on a new yield on the partnership interest and the parties have been unable to arrange a sale of the partnership interest to a new investor. The Company has the option of purchasing the partnership interest held by the private investors throughout the life of the partnership for an amount equal to the capital invested in the partnership interest by the private investors. In the event the Company does not purchase the partnership interest and the partnership is liquidated, the Company will be required to inject funds to a maximum of approximately \$200,000 if the private investors are unable to recover their investment from the sale of the shares of Hewden. The Company's obligation to inject these funds would rank equally with the debt securities.

No return of capital is scheduled during the life of the partnership but a partial return of capital is required in the case of certain sales of assets by Hewden out of the ordinary course of business.

**11. FINANCIAL ASSETS**

December 31	2003	2002
Accrued benefit asset	\$ 51,004	\$ 50,040
Deferred financing costs	25,292	1,566
Investment in Maxim Power Corporation	14,634	14,028
Investment in Energyst Rental Solutions	5,115	6,755
Deferred project costs	8,544	3,600
Matreq S.A. receivable US\$4,000 (Note 6b)	5,170	-
Other	20,791	15,301
	\$ 130,550	\$ 91,290

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 12. SHARE CAPITAL

The Company is authorized to issue an unlimited number of preferred shares without par value, of which 4,400,000 are designated as cumulative redeemable preferred shares. The Company had no preferred shares outstanding for the years ended December 31, 2003 and 2002.

The Company is authorized to issue an unlimited number of common shares. Common shares issued and outstanding are:

	2003		2002	
	Shares	Amount	Shares	Amount
Balance, beginning of year	77,579,954	\$ 233,450	75,816,263	\$ 212,122
Exercise of stock options	1,513,931	19,538	1,763,691	21,328
Repurchase of common shares	(1,338,900)	(4,049)	-	-
Balance, end of year	77,754,985	\$ 248,939	77,579,954	\$ 233,450

A shareholders' rights plan is in place which is intended to provide all holders of common shares with the opportunity to receive full and fair value for all of their shares in the event a third party attempts to acquire a significant interest in the Company. The Company's dealership agreements with subsidiaries of Caterpillar Inc. are fundamental to its business and any change in control must be approved by Caterpillar Inc.

The plan provides that one share purchase right has been issued for each common share and will trade with the common shares until such time as any person or group, other than a permitted bidder, bids to acquire or acquires 20% or more of the Company's common shares. The rights may also be triggered by a third party proposal for a merger, amalgamation or a similar transaction. The rights plan will expire at the termination of the Annual Meeting of shareholders to be held in April 2005 unless it is reconfirmed by a majority of the votes cast at the meeting.

The plan will not be triggered if a bid meets certain criteria (a permitted bidder). These criteria include that:

- the offer is made for all outstanding voting shares of the Company;
- more than 50% of the voting shares have been tendered by independent shareholders pursuant to the Takeover Bid (voting shares tendered may be withdrawn until taken up and paid for); and
- the Takeover Bid expires not less than 60 days after the date of the bid circular.

#### Repurchase of Common Shares

The Company repurchased 1,338,900 common shares during 2003 as part of normal course issuer bids. These shares were repurchased at an average price of \$24.51 for an aggregate cost of \$32,812 which has been allocated to reduce share capital by \$4,049 and retained earnings by \$28,763. The Company did not repurchase any common shares during 2002.

#### Stock Options

The Company has several stock option plans for employees and directors, the details of which are as follows:

	2003		2002	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Options outstanding, beginning of year	4,323,218	\$ 13.20	6,154,442	\$12.87
Issued	-	n/a	-	n/a
Exercised	(1,513,931)	\$12.91	(1,763,691)	\$12.04
Cancelled	(63,667)	\$14.55	(67,533)	\$13.22
Options outstanding, end of year	2,745,620	\$13.31	4,323,218	\$13.20
Exercisable at year-end	2,516,904	\$13.30	3,479,990	\$13.22

The following table summarizes information about the stock options outstanding at December 31, 2003:

Range of exercise prices	Options outstanding			Options exercisable		
	Number outstanding	Weighted average remaining contractual life (in years)	Weighted average exercise price	Number outstanding	Weighted average remaining contractual life (in years)	Weighted average exercise price
\$ 9 - \$12	686,867	3.8	\$ 10.31	686,867	3.8	\$ 10.31
\$12 - \$15	1,213,819	6.7	\$ 12.98	985,103	6.6	\$ 12.89
\$15 - \$17	844,934	3.7	\$ 16.22	844,934	3.7	\$ 16.22
	2,745,620	5.0	\$ 13.31	2,516,904	4.8	\$ 13.30

#### Other Stock-Based Compensation Plans

The Company has other stock-based compensation plans in the form of deferred share unit plans and stock appreciation rights plans that use notional units. These notional units, upon vesting, are valued based on the Company's common share price on the Toronto Stock Exchange and are marked to market at the end of each fiscal quarter. Changes in the value of the units as a result of fluctuations in the Company's share price and new issues are recognized in selling, general and administrative expense in the consolidated statement of income with the corresponding liability recorded on the consolidated balance sheet in accounts payable and accruals. Details of these plans are as follows:

#### Directors' Deferred Share Unit Plan A (DDSU):

Under the DDSU Plan, non-employee Directors of the Company may elect to allocate all or a portion of their cash compensation as deferred share units. These units are fully vested upon issuance. These units accumulate dividend equivalents in the form of additional units based on the dividends paid on the Company's common shares. Units are redeemable only following termination of service on the Board of Directors and must be redeemed by December 31st of the year following the year in which the termination occurred.

#### Deferred Share Unit Plan A (DSU-A):

Under the DSU-A Plan, senior executives of the Company may be awarded deferred share units as approved by the Board of Directors. These units are fully vested upon issuance to the executives. These units accumulate dividend equivalents in the form of additional units based on the dividends paid on the Company's common shares. Units are redeemable only following termination of employment and must be redeemed by December 31st of the year following the year in which the termination occurred.

#### Deferred Share Unit Plan B (DSU-B):

Under the DSU-B Plan, executives of the Company may be awarded performance based deferred share units as approved by the Board of Directors. This plan utilizes notional units that become vested partially on December 30th of the year following the year of retirement, death or disability or at specified percentages if the Company's common share price exceeds, at specified levels, the common share price at the date of grant. The specified levels and respective vesting percentages are as follows:

	Vesting %	Common Share Price	
		2003 Plan	2002 Plan
Grant Price	0%	\$ 26.95	\$ 26.05
10% improvement	25%	\$ 29.65	\$ 28.66
20% improvement	50%	\$ 32.34	\$ 31.26
30% improvement	75%	\$ 35.04	\$ 33.87
40% improvement	100%	\$ 37.73	\$ 36.47

Vested deferred share units are redeemable for a period of 30 days after termination, or by December 31st of the year following the year of retirement, death or disability. The notional deferred share units that have not vested within five years to the date that they were granted expire. Only vested units accumulate dividend equivalents in the form of additional units based on the dividends paid on the Company's common shares.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 11. SHARE CAPITAL (CONTINUED)

Details of the deferred share unit plans are as follows:

Units	DSU-A		DSU-B		DDSU	
	2003	2002	2003	2002	2003	2002
Outstanding, beginning of year	66,740	65,930	275,200	-	95,089	51,320
Additions during the year	867	810	423,820	275,200	38,328	43,769
Exercised/cancelled during the year	-	-	(13,254)	-	(1,027)	-
Outstanding, end of year	67,607	66,740	685,766	275,200	132,390	95,089
Vested at year-end <sup>(1)</sup>	67,607	66,740	258,498	28,050	132,390	95,089

Liability	DSU-A		DSU-B		DDSU	
	2003	2002	2003	2002	2003	2002
Balance, beginning of year	\$ 1,705	\$ 1,318	\$ 717	\$ -	\$ 2,430	\$ 1,027
Expensed during the year	323	387	7,038	717	1,568	1,403
Exercised/cancelled during the year	-	-	-	-	(26)	-
Balance, end of year	\$ 2,028	\$ 1,705	\$ 7,755	\$ 717	\$ 3,972	\$ 2,430

(1) Of the DSU-B units vested at year-end, 11 units were retirement vested (2002: 28,050 units)

#### Share Appreciation Rights (SAR):

In 2003 and 2002, awards under the SAR Plan were granted to senior managers within Canada and the U.K. Under the SAR Plan, awards are expensed over the vesting periods when the market price of the common shares exceeds the strike price under the plan. Changes, either increases or decreases, in the quoted market value of those shares between the date of grant and the measurement date result in a change in the measure of compensation for the award and will be amortized over the remaining vesting periods. The SAR Plan uses notional units that are valued based on the Company's common share price on the Toronto Stock Exchange. The units are exercisable for cash if incremental common share price thresholds are achieved or other performance measures are met.

Details of the SAR Plan are as follows:

Units		2003	2002
Outstanding, beginning of year		282,500	-
Additions during the year		279,500	282,500
Exercised/cancelled during the year		(20,879)	-
Outstanding, end of year		541,121	282,500
Exercisable, end of year		163,708	84,500
Liability		2003	2002
Balance, beginning of year		\$ -	\$ -
Expensed during the year		1,341	-
Exercised/cancelled during the year		(115)	-
Balance, end of year		\$ 1,226	\$ -
Strike price	2002 issue		\$ 26.05
	2003 issue	\$ 26.95	

### 12. FINANCIAL INSTRUMENTS - TRANSLATION ADJUSTMENTS

December 31		2003	2002
Balance, beginning of year		\$ (2,831)	\$ (26,847)
Gain realized during the year		(2,578)	-
Translation adjustments for the year		(60,062)	24,016
Balance, end of year		\$ (65,471)	\$ (2,831)

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Translation gains or losses on the consolidation of foreign subsidiaries' financial statements are accumulated in this account. Translation adjustments arise as a result of fluctuations in foreign currency exchange rates. The cumulative currency translation adjustment for 2003 resulted from the weakening of the U.S. dollar, British pound Sterling and Chilean peso against the Canadian dollar.

At December 31, 2003 and 2002, the exchange rates of the Canadian dollar against the following foreign denominations were as follows:

December 31	2003	2002
United States dollar	1.2924	1.5796
British pound Sterling	2.3066	2.5428
Chilean peso	n/a <sup>(1)</sup>	0.002192

(1) Effective October 1, 2003, the functional currency for Finning Chile S.A. was changed from the Chilean peso to the US dollar (Note 1(q)). The exchange rate of the Canadian dollar against the Chilean peso at September 30, 2003 immediately prior to the change in functional currency was 0.002044.

### Other expenses (income)

Other expenses (income) include items shown separately to facilitate comparison with the prior year. The following items are included in other expenses (income) for the years ended December 31:

	2003	2002
Gain on sale of surplus properties in Canada and the U.K.	\$ (1,791)	\$ (15,216)
Amortization of deferred gain on 2001 sale of the Canadian Materials Handling business	(1,600)	(1,600)
Costs incurred on DBSi business process reengineering project (a)	22,104	10,264
Gain on sale of the UK Power Rental business (Note 8)	(13,800)	-
(Gain) loss from equity investment	(606)	972
	4,307	(5,580)
Tax recovery (provision) on other expenses (income)	1,265	(952)
Other expenses (income), net of tax	\$ 3,042	\$ (4,628)

(a) DBSi is the new information technology for the Caterpillar Dealer Business System. DBSi enhancements include customer relationship management, finance and administration, and supply chain management. Costs incurred relate to the implementation of the new software and the associated business process reengineering in the Company's UK operation. DBSi was implemented and became operational in Finning (UK) effective January 2004.

### BASIC EARNINGS PER SHARE

Basic earnings per share is calculated by dividing net income available to the shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated to reflect the dilutive effect of exercising outstanding stock options by application of the treasury stock method.

2003	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic earnings per share: net income	\$ 131,951	77,326,253	\$ 1.71
Effect of dilutive securities: stock options		1,468,380	
Diluted earnings per share: net income and assumed conversions	\$ 131,951	78,794,633	\$ 1.68
2002	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic earnings per share: net income	\$ 132,253	76,954,609	\$ 1.72
Effect of dilutive securities: stock options		1,984,531	
Diluted earnings per share: net income and assumed conversions	\$ 132,253	78,939,140	\$ 1.68

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 10. PENSION BENEFITS

The Company and its subsidiaries in Canada and the U.K. have defined benefit pension plans and defined contribution pension plans providing retirement benefits for most of their employees. The South American employees do not participate in employer pension plans but are covered by country specific legislation with respect to indemnity plans.

The expense for the Company's benefit plans, primarily for pension benefits, is as follows:

For the years ended December 31	2003				2002			
	Canada	UK	Hewden	Total	Canada	UK	Hewden	Total
<b>Defined contribution plans</b>								
Net benefit plan expense	\$ 5,939	\$ 158	\$ 263	\$ 6,360	\$ 5,269	\$ -	\$ 249	\$ 5,518
<b>Defined benefit plans</b>								
Current service cost,								
net of employee contributions	\$ 4,566	\$ 9,137	\$ 3,046	\$ 16,749	\$ 4,497	\$ 8,297	\$ 3,855	\$ 16,649
Interest cost	14,903	16,368	8,247	39,518	14,147	17,426	8,460	40,033
Expected return on plan assets	(16,465)	(17,116)	(7,035)	(40,616)	(16,461)	(18,245)	(8,450)	(43,156)
Amortization of past service costs	298	-	-	298	165	-	-	165
Amortization of net actuarial loss (gain)	589	3,561	902	5,052	217	1,027	(117)	1,127
Amortization of transitional obligation (asset)	1,047	(1,330)	1,700	1,417	1,047	(1,477)	1,889	1,459
Net benefit plan expense	4,938	10,620	6,860	22,418	3,612	7,028	5,637	16,277
<b>Total</b>	<b>\$ 10,877</b>	<b>\$ 10,778</b>	<b>\$ 7,123</b>	<b>\$ 28,778</b>	<b>\$ 8,881</b>	<b>\$ 7,028</b>	<b>\$ 5,886</b>	<b>\$ 21,795</b>

Information about the Company's defined benefit plans is as follows:

For the years ended December 31	Canada	UK	Hewden	Total	Canada	UK	Hewden	Total
<b>Accrued benefit obligation</b>								
Balance at the beginning of year	\$ 212,167	\$ 320,128	\$ 159,342	\$ 691,637	\$ 204,063	\$ 267,412	\$ 128,531	\$ 600,006
Current service cost	6,396	12,794	4,668	23,858	6,135	12,124	5,404	23,663
Interest cost	14,903	16,499	8,313	39,715	14,147	17,426	8,460	40,033
Benefits paid	(11,313)	(7,639)	(4,855)	(23,807)	(16,188)	(8,646)	(5,645)	(30,479)
Actuarial gains	6,688	39,161	17,597	63,446	2,244	5,625	10,006	17,875
Foreign exchange rate changes	-	(29,735)	(14,801)	(44,536)	-	26,187	12,586	38,773
Plan amendments	-	-	-	-	1,766	-	-	1,766
Balance at the end of year	\$ 228,841	\$ 351,208	\$ 170,264	\$ 750,313	\$ 212,167	\$ 320,128	\$ 159,342	\$ 691,637
<b>Plan Assets</b>								
Fair value at the beginning of year	\$ 220,782	\$ 255,239	\$ 108,041	\$ 584,062	\$ 187,314	\$ 244,801	\$ 103,155	\$ 535,270
Actual return on plan assets	18,273	22,720	7,487	48,480	5,785	(20,815)	(4,030)	(19,060)
Employer contributions	3,135	13,161	2,551	18,847	42,233	12,099	2,912	57,244
Employees' contributions	1,830	3,584	1,598	7,012	1,638	3,827	1,549	7,014
Benefits paid	(11,313)	(7,639)	(4,855)	(23,807)	(16,188)	(8,646)	(5,645)	(30,479)
Foreign exchange rate changes	-	(23,709)	(10,035)	(33,744)	-	23,973	10,100	34,073
Fair value at the end of year	\$ 232,707	\$ 263,356	\$ 104,787	\$ 600,850	\$ 220,782	\$ 255,239	\$ 108,041	\$ 584,062
Funded status - plan surplus (deficit)	\$ 3,866	\$ (87,852)	\$ (65,477)	\$ (149,463)	\$ 8,615	\$ (64,889)	\$ (51,301)	\$ (107,575)
Unamortized net actuarial loss	31,182	109,289	41,918	182,389	26,582	87,391	28,253	142,226
Unamortized past service costs	3,258	-	-	3,258	3,555	-	-	3,555
Contributions remitted after valuation date	310	-	5,873	6,183	-	-	-	-
Adjustment	-	1,241	-	1,241	-	961	-	961
Unamortized transitional obligation (asset)	3,021	(13,311)	13,851	3,561	4,068	(16,243)	17,161	4,986
Accrued benefit asset (liability) <sup>(1)</sup>	\$ 41,637	\$ 9,367	\$ (3,835)	\$ 47,169	\$ 42,820	\$ 7,220	\$ (5,887)	\$ 44,153

Included in the above accrued benefit obligation and fair value of plan assets at the year-end are the following amounts in respect of plans that are not fully funded:

Accrued benefit obligation	\$ 185,871	\$ 351,208	\$ 170,264	\$ 707,343	\$ 171,473	\$ 320,128	\$ 159,342	\$ 650,943
Fair value of plan assets	173,473	263,356	104,787	541,616	161,596	255,239	108,041	524,876
Funded status - plan deficit	\$ 12,398	\$ 87,852	\$ 65,477	\$ 165,727	\$ 9,877	\$ 64,889	\$ 51,301	\$ 126,067

(1) Accrued benefit asset and liability are classified as other assets and accounts payable and accruals, respectively, on the Consolidated Balance Sheet.



Plan assets are principally invested in the following securities at November 30, 2003:

	Canada	UK	Hewden
Equity	65.3%	73.8%	70.1%
Fixed-income	34.7%	26.2%	25.4%

For measurement purposes, assets and liabilities of the plans are measured as of November 30. Plan assets include common shares of the Company having a fair value of \$684 at December 31, 2003 (2002: \$935).

The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligations are as follows:

For the years ended December 31	2003			2002		
	Canada	UK	Hewden	Canada	UK	Hewden
Discount rate used to determine accrued benefit obligation	6.50%	5.75%	5.75%	7.00%	5.75%	5.75%
Discount rate used to determine net benefit cost	7.00%	5.75%	5.75%	7.00%	5.50%	6.00%
Expected long-term rate of return on plan assets	8.00%	7.25%	7.25%	8.50%	7.25%	7.25%
Rate of compensation increase	3.475%	3.20%	3.50%	4.10%	3.20%	3.50%
Estimated remaining service life (years)	10 - 15	14	13	10 - 13.3	14	13

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 7. FINANCIAL INSTRUMENTS

The Company is subject to various financial risks including interest rate risk and foreign exchange risk. To manage this risk, the Company uses interest rate swaps, cross-currency swaps, forward exchange contracts and options as hedges against actual assets, liabilities, firm commitments or forecasted transactions.

The following derivative contracts were in place at December 31, 2003 and 2002:

#### 2003

Interest Rate Swaps	Notional Value	Interest Rates <sup>(1)</sup>		Term to Maturity	Total Fair Value
		Fixed	Floating		
Fixed/Floating Swaps:					
a) Canadian \$ pay fixed (1)	\$ 22,613	5.00%	2.64%	1 - 4 years	\$ (506)
b) Canadian \$ pay floating (1)	\$ 100,000	7.40%	5.36%	4 years	\$ 2,237
Cross-Currency Interest Rate Swap (2):					
a) Buy Canadian \$ (sell £228,000), pay £ fixed	\$ 498,849	8.33%	5.14%	n/a	\$ (41,272)
Forward Foreign Exchange Contracts:	Notional Value	Weighted Average Exchange Rate		Term to Maturity	Total Fair Value
a) Buy US\$ (sell Canadian \$)	US \$ 81,269	1.3478		1 - 2 years	\$ (4,500)
b) Sell US\$ (buy Canadian \$)	US \$ 29,000	1.3263		1 - 4 months	\$ 983
c) Sell £ (buy Canadian \$) (3)	£ 95,560	2.1491		n/a	\$ (8,277)

#### 2002

Interest Rate Swaps	Notional Value	Interest Rates <sup>(1)</sup>		Term to Maturity	Total Fair Value
		Fixed	Floating		
Fixed/Floating Swaps:					
a) Canadian \$ pay fixed (1)	\$ 39,679	5.06%	2.84%	1 - 6 years	\$ (926)
b) British £ pay fixed	£ 100,000	5.50%	4.02%	10 years	\$ (14,028)
Cross-Currency Interest Rate Swap (2):					
a) Buy Canadian \$ (sell £228,000), pay £ fixed	\$ 498,849	8.33%	5.34%	n/a	\$ (111,965)
Forward Foreign Exchange Contracts:	Notional Value	Weighted Average Exchange Rate		Term to Maturity	Total Fair Value
a) Buy US\$ (sell Canadian \$)	US \$ 99,088	1.5783		1 - 2 years	\$ 129
b) Sell £ (buy Canadian \$) (3)	£ 95,560	2.1491		n/a	\$ (29,644)

(1) For the fixed/floating Canadian \$ interest rate swaps, the fixed interest rates represent the weighted average interest rates which the Company is contractually committed to pay/receive until the swap matures. The floating interest rates represent the effective interest rates at the balance sheet date and vary over time.

(2) The interest rate on the cross-currency interest rate swap contract is reset in two years and has an open maturity date. The contract hedges the Company's net investment in Hewden and an amount of British pound Sterling cash flows. \$27,056 of the negative fair value, representing the mark-to-spot rate loss on the forward foreign exchange component of the swap, has been recognized on the balance sheet in current liabilities and offset to cumulative currency translation adjustments.

(3) The forward foreign exchange contract hedges the Company's net investment in Hewden. \$11,075 of the negative fair value, representing the mark-to-spot rate loss on the contract, has been recognized on the balance sheet in current liabilities and offset to cumulative currency translation adjustments.

#### Fair Values

The following fair value information is provided solely to comply with financial instrument disclosure requirements. The Company cautions readers in the interpretation of the impact of these estimated fair values. The fair value of financial instruments is determined by reference to quoted market prices for actual or similar instruments, where available, or by estimates derived using present value or other valuation techniques. The estimated fair values of interest rate swaps and foreign exchange contracts are reported above. The fair value of accounts receivable, notes receivable, short-term debt, accounts payable and accruals approximates their recorded values due to the short-term maturities of these instruments.

The fair value of the Company's long-term debt is estimated as follows:

December 31	2003		2002	
	Book Value	Fair Value	Book Value	Fair Value
Long-Term Debt	\$ 983,424	\$ 1,007,579	\$ 556,375	\$ 590,963

#### Credit Risk

The Company operates internationally as a full service provider (selling, servicing, renting and financing) of heavy equipment and related products. The Company is not dependent on any single customer or group of customers. There is no concentration of credit risk related to the Company's position in trade accounts or notes receivables. Credit risk is minimized because of the diversification of the Company's operations, as well as its large customer base and its geographical dispersion.

The credit risk of the foreign currency contracts and interest rate swap agreements arises from the possibility that the counterparties to the agreements or contracts may default on their obligations; however, the Company does not anticipate such an event to occur. In order to minimize this risk, the Company enters into such agreements only with highly rated financial institutions.

#### III. ACCOUNTS RECEIVABLE SECURITIZATION

Under an agreement dated November 29, 2002, the Company sold a \$30,000 co-ownership interest in a pool of eligible non-interest bearing trade receivables to a multi-seller securitization trust. Under the terms of this agreement, which expires on November 29, 2007, the Company can sell co-ownership interests of up to \$120,000 on a revolving basis. The Company retains a subordinated interest in the cash flows arising from the eligible receivables underlying the trust's co-ownership interest. The trust and its investors do not have recourse to the Company's other assets in the event that obligors fail to pay the underlying receivables when due. Pursuant to the agreement, the Company continues to service the pool of underlying receivables.

As at December 31, 2003, the Company is carrying a retained interest in the transferred receivables in the amount of \$9,040 (as at December 31, 2002: \$8,200). The servicing liability outstanding is approximately \$33 as at December 31, 2003 (as at December 31, 2002: \$40).

For the year ended December 31, 2003, the Company recognized a pre-tax loss of \$929 (December 2002: \$127) relating to these transfers. The Company estimates the fair value of its retained interest and computes the loss on sale using a discounted cash flow model. The key assumptions underlying this model are:

	December 31, 2003	Range for year ended 2003
Cost of funds	3.08%	3.05% to 3.58%
Weighted average life in days	30.4	23.3 to 34.9
Average credit loss ratio	0.11 %	(0.454)% to 0.113%
Average dilution ratio	6.57%	4.98% to 8.27%
Servicing fee rate	2.0%	2.0%
Fair value of retained interest	\$7,700	

The impact of an immediate 10 percent and 20 percent adverse change in the average dilution ratio on the current fair value of the retained interest would be reductions of approximately \$263 and \$525, respectively. The impact of an immediate 10 percent and 20 percent adverse change in the weighted average life in days on the current fair value of the retained interest would be reductions of approximately \$708 and \$1,298, respectively. The sensitivity of the current fair value of the retained interest or residual cash flows to an immediate 10 percent and 20 percent adverse change in each of the remaining assumptions is not significant.

The table below shows certain cash flows received from and paid to the securitization trust:

For the years ended December 31	2003	2002
Proceeds from new securitization	\$ -	\$ 30,000
Proceeds from revolving reinvestment of collections	\$ 29,567	\$ 25,000



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 9. ECONOMIC RELATIONSHIPS

The Company distributes and services heavy equipment and related products. The Company has dealership agreements with numerous equipment manufacturers, of which the most significant are with subsidiaries of Caterpillar Inc. Distribution and servicing of Caterpillar products account for the major portion of the Company's operations. Finning has a strong relationship with Caterpillar Inc. that has been ongoing since 1933.

### 10. SEGMENTED FINANCIAL INFORMATION

The Company and its subsidiaries have operated primarily in one industry during the year, that being the selling, servicing, renting and financing of heavy equipment and related products.

Operating units are as follows:

- Canadian operations: British Columbia, Alberta, the Northwest Territories and the Yukon Territory.
- UK operations: England, Scotland, Wales, Falkland Islands and the Channel Islands. 2003 includes Lex Harvey operations.
- South American operations: Chile, Argentina, Uruguay and Bolivia. 2002 included Chile only.
- Hewden operations: Equipment rental in the U.K.
- Other operations: corporate head office.

The reportable operating segments for the years ended December 31 are as follows:

2003	Canada	UK	South America	Hewden	Other	Consolidated
Revenue from external sources	\$ 1,456,357	\$ 934,193	\$ 561,964	\$ 640,757	\$ 24	\$ 3,593,295
Operating costs	1,210,548	820,845	480,003	446,873	20,591	2,978,860
Depreciation	125,332	65,732	22,074	141,822	-	354,960
Other expenses (income)	-	-	-	-	4,307	4,307
Earnings before interest and tax	\$ 120,477	\$ 47,616	\$ 59,887	\$ 52,062	\$ (24,874)	\$ 255,168
Finance cost and interest on other indebtedness						76,868
Provision for income taxes						26,648
Non-controlling interests						19,701
Net income						\$ 131,951
Identifiable assets	\$ 1,025,144	\$ 726,576	\$ 523,885	\$ 1,044,990	\$ 108,015	\$ 3,428,610
Gross capital expenditures	\$ 38,113	\$ 14,276	\$ 16,640	\$ 20,628	\$ -	\$ 89,657
Rental assets acquired	\$ 71,600	\$ 25,571	\$ 33,540	\$ 166,534	\$ -	\$ 297,245

2002	Canada	UK	South America	Hewden	Other	Consolidated
Revenue from external sources	\$ 1,269,275	\$ 828,246	\$ 444,644	\$ 665,266	\$ 55	\$ 3,207,486
Operating costs	1,021,205	752,861	388,075	443,665	14,484	2,620,290
Depreciation	135,134	26,073	11,726	142,060	-	314,993
Other expenses (income)	-	-	-	-	(5,580)	(5,580)
Earnings before interest and tax	\$ 112,936	\$ 49,312	\$ 44,843	\$ 79,541	\$ (8,849)	\$ 277,783
Finance cost and interest on other indebtedness						79,828
Provision for income taxes						47,730
Non-controlling interests						17,972
Net income						\$ 132,253
Identifiable assets	\$ 1,085,207	\$ 496,509	\$ 352,645	\$ 1,190,020	\$ 38,166	\$ 3,162,547
Gross capital expenditures	\$ 18,197	\$ 7,040	\$ 7,151	\$ 15,038	\$ -	\$ 47,426
Rental assets acquired	\$ 61,000	\$ 22,481	\$ 39,077	\$ 226,068	\$ -	\$ 348,626

**21. OPERATING LEASES**

Payments due under various operating lease contracts are as follows:

2004	\$ 63,462
2005	53,133
2006	42,707
2007	34,426
2008	28,171
2009 & thereafter	218,533
Total	\$ 440,432

**22. CONTINGENCIES AND COMMITMENTS**

(a) Due to the size, complexity and nature of the Company's operations, various legal matters are pending. In the opinion of management, these matters will not have a material effect on the Company's consolidated financial position or results of operations.

(b) Proceedings have been brought against Hewden Tower Cranes Limited, a subsidiary of the Company, by Yarm Road Limited and Cleveland Bridge U.K. Limited, for damages arising from the collapse of a tower crane at the Canary Wharf site in the U.K. on May 21, 2000. The business of Hewden Tower Cranes Limited was sold by the Company in October 2002. The claim amounts to £16.6 million plus costs and interest. Ten preliminary issues were heard by the High Court of Justice Queen's Bench Division (Technology and Construction Court) in London in October 2002. In November 2002, the Court ruled against Hewden Tower Cranes Limited on a number of key issues. In July 2003, the Court of Appeal (Civil Division) reaffirmed the position taken by the judge of first instance. A petition for leave to appeal the decision to the House of Lords was not allowed.

On January 12, 2004, an award of £1.5 million was awarded to the plaintiff under an adjudication process that remains binding until the matter is ruled upon by the High Court of Justice. The trial date is set for June 2004. The Company has accounted for the adjudication decision in 2003. The outcome of this claim is uncertain and the resultant loss, if any, to the Company is not determinable.

**23. GUARANTEES AND (REPAIRED) TOOLS**

In 2003, the Company adopted CICA Accounting Guideline 14, *Disclosure of Guarantees* (AcG-14) on a prospective basis. AcG-14 supplements other disclosure requirements and as such, some of these disclosures are reported in other notes throughout the Consolidated Financial Statements.

The Company enters into contracts with rights of return, in certain circumstances, for the repurchase of equipment sold to customers for an amount estimated to be the future value of the fair market price at that time. As at December 31, 2003 the total estimated value of these contracts outstanding is \$142,921 coming due at periods ranging from 2004 to 2013. Usually, the equipment at the exercise date of the contract is worth more than the contract value. The total amount recognized as a provision against these contracts is \$3,352.

The Company has also guaranteed the residual value of certain assets up to a maximum of \$4,000 extending over periods up until 2008.

## TEN-YEAR FINANCIAL SUMMARY

YEARS ENDED DECEMBER 31 (IN THOUSANDS EXCEPT PER SHARE AND PER EMPLOYEE DATA)

	2003	2002	2001
Revenue			
Canadian operations	\$ 1,456,357	1,269,275	1,398,623
UK operations	\$ 934,193	828,246	804,084
South American operations	\$ 561,964	444,644	448,005
Hewden operations	\$ 640,757	665,266	587,482
International operations	\$ 24	55	8,849
Total consolidated	\$ 3,593,295	3,207,486	3,247,043
Earnings before interest and taxes	\$ 255,168	277,783	241,601
As a percent of revenue	7.1%	8.7%	7.4%
Net income	\$ 131,951	132,253	103,917
As a percent of revenue	3.7%	4.1%	3.2%
Earnings Per Common Share			
Basic	\$ 1.71	1.72	1.37
Diluted <sup>(1)</sup>	\$ 1.68	1.68	1.34
Dividends			
Total common share dividends	\$ 27,816	23,100	15,155
Per common share	\$ 0.36	0.30	0.20
Cash flow after working capital changes	\$ 384,210	472,804	445,623
Per common share	\$ 4.94	6.09	5.88
Gross capital expenditures	\$ 89,657	47,426	51,180
Ratios			
Asset turnover ratio	1.09	1.05	1.25
Debt to equity <sup>(2)</sup>	0.79:1	0.60:1	0.87:1
Book value per common share	\$ 12.33	11.99	10.23
Return on average shareholders' equity	14.3%	15.7%	14.1%
Common Share Price			
High	\$ 33.20	28.85	20.35
Low	\$ 23.00	19.65	12.10
Common shares outstanding (thousands)	77,755	77,580	75,816
Revenue per employee	\$ 303,078	327,462	331,230
Net income per employee	\$ 11,129	13,502	10,601
Number of Employees			
Canada	2,717	2,548	2,629
UK	2,387	1,578	1,553
South America	2,456	1,817	1,516
Hewden	3,804	3,813	4,066
International	45	39	39
Total	11,409	9,795	9,803

Financial data has been restated to incorporate common share subdivision occurring during the ten-year period.

1. In 2000, the diluted earnings per share calculation was changed to reflect the dilutive effect of exercising outstanding stock options by application of the treasury stock method. Diluted earnings per share for the years ended 1999 to 2003 have been stated using this method.
2. Debt to equity ratio for the 2000 result did not include the effect of the investment in Hewden Stuart.



## TEN-YEAR FINANCIAL SUMMARY

2000	1999	1998	1997	1996	1995	1994
1,214,516	1,032,922	1,136,917	1,146,406	926,653	923,275	838,680
682,162	712,941	793,020	565,376	437,949	416,034	338,499
474,145	377,777	503,505	514,068	408,616	350,650	241,221
-	-	-	-	-	-	-
89,209	106,221	151,979	101,214	101,491	62,032	39,138
2,460,032	2,229,861	2,585,421	2,327,064	1,874,709	1,751,991	1,457,538
165,263	148,912	82,729	216,625	188,404	174,397	136,748
6.7%	6.7%	3.2%	9.3%	10.0%	10.0%	9.4%
73,391	59,600	3,185	103,695	88,184	77,493	61,421
3.0%	2.7%	0.1%	4.5%	4.7%	4.4%	4.2%
0.95	0.75	0.04	1.32	1.13	1.00	0.80
0.94	0.74	0.04	1.27	1.09	0.98	0.78
15,452	15,919	15,868	15,761	15,600	15,451	9,985
0.20	0.20	0.20	0.20	0.20	0.20	0.13
357,780	438,232	253,891	200,397	153,887	16,341	69,735
4.72	5.50	3.20	2.53	1.96	0.21	0.91
15,037	20,864	44,176	47,148	43,132	25,812	16,641
1.18	1.05	1.13	0.99	1.04	1.09	1.06
1.04:1	1.29:1	1.67:1	1.66:1	1.50:1	1.55:1	1.35:1
9.02	8.74	8.52	8.69	7.59	6.55	5.83
10.5%	8.7%	0.5%	16.2%	16.0%	16.2%	14.8%
13.85	15.40	18.50	20.50	14.58	11.63	12.06
9.85	9.00	10.25	14.43	9.75	8.63	9.19
75,790	79,737	79,426	79,091	78,547	77,442	77,026
477,120	450,113	492,367	423,565	441,940	428,674	374,978
14,234	12,031	607	18,874	20,788	18,961	15,802
2,326	2,271	2,494	2,496	2,269	2,228	2,124
1,404	1,364	1,348	1,720	925	884	873
1,390	1,259	1,354	1,228	1,008	941	861
-	-	-	-	-	-	-
.36	60	55	50	40	34	29
5,156	4,954	5,251	5,494	4,242	4,087	3,887

## BOARD OF DIRECTORS



**Ricardo Bacarreza**  
1, 3  
Santiago, Chile

President, Proinvest S.A., a financial services company based in Santiago, Chile. Director of several international companies. Previously, an economist at the World Bank in Washington, D.C. and a senior executive of a number of banks and insurance companies in Chile.



**John E. Cleghorn**  
4, 5  
Toronto, Ontario

Chairman of the Board, SNC-Lavalin Group Inc. Director of Canadian Pacific Railways, Molson Inc. and Nortel Networks. Chancellor of Wilfred Laurier University. Previously, executive positions with several financial institutions, including Chairman and Chief Executive Officer of the Royal Bank of Canada.



**James F. Dinning**  
2, 3  
Calgary, Alberta

Executive Vice President, TransAlta Corporation. Director of Shaw Communications Inc. and Western Financial Group Inc. Previously, 11 years as a member of the Legislative Assembly of Alberta, three cabinet portfolios 1988 to 1997, including Provincial Treasurer.



**Conrad A. Pinette**  
4  
Vancouver, British Columbia

Elected Chairman of the Board of the Company in 2000. President and Chief Operating Officer, Lignum Limited, one of Canada's largest, privately held forest products companies. Trustee of A&W Revenue Royalties Income Fund and Director of TimberWest Forest Corporation.



**Andrew H. Simon, OBE**  
1 (chairman), 4, 5  
Staffordshire, England

Director of several companies, including SGL Carbon AG, Kaffee Partner, and Associated British Ports plc. Previously, Managing Director and Chairman and Chief Executive Officer of Evode Group of Staffordshire, an international specialty chemicals and materials company.



**Monica E. Sloan**  
3, 5  
Calgary, Alberta

Managing Director and Chief Executive Officer of Intervera Ltd. Previously, executive positions with Kelman Technologies Inc., TELUS Advanced Communications and Novacorp International Consulting.

1 Member, Audit Committee

2 Member, Human Resources and Compensation Committee

3 Member, Environmental, Health and Safety Committee

4 Member, Governance Committee

5 Member, Pension Committee



**Timothy S. Howden**  
2 (chairman), 4  
Marlow, Buckinghamshire, England

Director of several companies, including Hyperion Insurance Group, Mahindra-British Telecom SSL plc, and Benchmark Dental Laboratories Ltd. Previously, senior executive positions with several international companies involved in the food and household products distribution industries.



**Jefferson J. Mooney**  
2, 3  
Vancouver,  
British Columbia

Chairman and Chief Executive Officer, A&W Food Services of Canada Inc. Director of Cadillac Fairview Corporation Limited. Previously, Chairman of the Business Council of British Columbia.



**Donald S. O'Sullivan**  
1, 4 (chairman)  
Edmonton, Alberta

President, O'Sullivan Resources Ltd. Director of National Life Assurance Company of Canada Ltd. Previously, ownership and/or executive positions with several companies.



**Michael T. Waites**  
1  
Calgary, Alberta

Executive Vice President and Chief Financial Officer and Chief Executive Officer of U.S. Network, Canadian Pacific Railway. Previously Vice President and Comptroller of Canadian Pacific Railway and Vice President and Chief Executive Officer of Chevron Canada Resources.



**Douglas W.G. Whitehead**  
3  
West Vancouver, British Columbia

President and Chief Executive Officer of the Company. Director of Ballard Power Systems Inc., Terasen Inc., Belcorp Industries Inc. and the Conference Board of Canada. Previously, senior executive positions with Fletcher Challenge Canada, including President and Chief Executive Officer.



**John M. Willson**  
1, 2, 3 (chairman)  
Vancouver, British Columbia

Director of Nexen Inc. and Pan American Silver Corporation. Previously, senior executive positions with several companies, including President and Chief Executive Officer of Placer Dome Inc., an international gold mining and production company, and President and Chief Executive Officer of Western Canada Steel Ltd.

#### CORPORATE OFFICERS

**Brian C. Bell**  
President  
Finning South America

**Wayne M. Bingham**  
Executive Vice President  
and Chief Financial Officer  
Finning International Inc.

**Neil R. Dickinson**  
Vice President,  
Human Resources  
Finning International Inc.

**Anthony R. Guglielmin**  
Vice President,  
Corporate Development  
and Strategic Planning  
Finning International Inc.

**Paul J.C. Jarvis**  
President, Power Systems  
Finning International Inc.

**Nicholas B. Lloyd**  
Managing Director  
Hewden Stuart plc.

**Stephen Mallett**  
Managing Director  
Finning (UK) Ltd.

**Anna P. Marks**  
Vice President and  
Corporate Controller  
Finning International Inc.

**Conrad A. Pinette**  
Chairman of the Board  
Finning International Inc.

**Ian M. Reid**  
President  
Finning (Canada)

**Douglas W. Sprout**  
Executive Vice President,  
Customer Support Services  
Finning International Inc.

**John T. Struthers**  
Corporate Secretary  
Finning International Inc.

**Douglas W.G. Whitehead**  
President  
and Chief Executive Officer  
Finning International Inc.

**Shelley C. Williams**  
Treasurer  
Finning International Inc.





Conrad A. Pinette  
Chairman of the Board

The Board of Directors and management of Finning International Inc. consider good governance to be an important factor in the effective operation of the Company.

The Board has overall responsibility for conduct of the business and affairs of the Company and discharges this responsibility both directly and through delegating certain authority to committees of the Board and to senior management of the Company.

The Corporate Governance Committee enhances corporate performance by assessing and making recommendations regarding board effectiveness and by establishing a process for identifying, recruiting, appointing and re-appointing directors and providing for the on-going development of current board members. The Committee monitors the flow of information between the board and management and, where necessary, makes recommendations on improving these lines of communication.

The Audit Committee assists the Board in fulfilling its oversight responsibility to shareholders, potential shareholders, the investment community and others with respect to the Company's financial statements, financial reporting process, systems of internal accounting and financial controls, internal audit function, external auditors' reports and risk assessment and management. The Committee is empowered to investigate any matter, with full access to all books, records, facilities and personnel of the Company. It is also empowered to instruct and retain outside counsel or other experts as required.

The Human Resources and Compensation Committee plans for the continuity of executive officers and other key employees. The committee also reviews the Company's overall executive compensation plan to ensure it is competitive and motivating in order to attract, retain and inspire excellence in the performance of executive officers and other key employees. In all its deliberations, the Committee takes into account the cost of executive compensation and the interests of shareholders.

The Environmental, Health and Safety Committee assists, encourages and counsels management to achieve the Company's goal of reducing accidents in the workplace through the adoption, monitoring and enforcement of policies and procedures designed to meet or exceed the Company's environmental, health and safety goals.

The Pension Committee reviews the design and benefits of the Company's pension funds as well as the selection, investment objectives and ongoing performance of the fund manager(s).

Ranked 4th of 207 companies in Canada in Globe and Mail Report on Business, September 2003 study on corporate governance.

Ranked number 1 by Canadian Business Magazine in 2003 report on corporate governance.

Ranked in the 100th percentile (AAA+) in the Rotman School of Management of the University of Toronto 2003 study on corporate governance ("Board Shareholders Confidence Index").

*The Company's compliance with the Toronto Stock Exchange Corporate Governance Guidelines is highlighted below:*

<i>Board responsible for overall stewardship of Company</i>	Yes
<i>Board constituted with majority of unrelated directors</i>	Yes
<i>Relationship of each director disclosed and explained</i>	Yes
<i>Corporate Governance Committee constituted with non-management directors</i>	Yes
<i>Process implemented to assess Board effectiveness</i>	Yes
<i>Orientation and education program provided for new directors</i>	Yes
<i>Board size reviewed for effective decision-making</i>	Yes
<i>Directors compensation reflective of risk and responsibility</i>	Yes
<i>Committees generally composed of non-management directors</i>	Yes
<i>Committee assigned to supervise corporate governance</i>	Yes
<i>Limits to management responsibilities defined</i>	Yes
<i>Board functions independently of management</i>	Yes
<i>Audit Committee composed only of unrelated directors and has direct communication with the Company's auditors</i>	Yes
<i>System implemented for Board to engage outside advisors</i>	Yes

## SHAREHOLDER INFORMATION

### STOCK EXCHANGES

The common shares of Finning International Inc. are listed on the Toronto Stock Exchange. Symbol: FTT

### AUDITORS

#### **Deloitte & Touche LLP**

Vancouver, Canada

### SOLICITORS

#### **Borden Ladner Gervais LLP**

Vancouver, Canada

### CORPORATE HEAD OFFICE

Suite 1000 - 666 Burrard Street  
Vancouver, Canada V6C 2X8  
Telephone: 604-691-6444

### ANNUAL MEETING

The Annual General Meeting of shareholders will be held at 11:00 a.m., April 28, 2004 at the Hyatt Regency Hotel in Vancouver.

### CORPORATE INFORMATION

The Company prepares an Annual Information Form (AIF), which is filed with the securities commission or similar bodies in all of the provinces of Canada. Copies of the AIF and Annual and Quarterly Reports are available to shareholders and other interested parties on request or can be accessed directly from Finning's website at [www.finning.com](http://www.finning.com)

### REGISTRAR AND TRANSFER AGENT

#### **Computershare Trust Company of Canada**

To contact the stock transfer agent nearest to your location see listing to the right.

### INVESTOR INQUIRIES

Inquiries relating to shares or dividends should be directed to the Company's Registrar and Transfer Agent. Inquiries relating to the Company's operating activities and financial information should be directed to Anthony R. Guglielmin, Vice President Corporate Development and Strategic Planning.  
Telephone 604-331-4937, Fax 604-331-4899, email: [aguglielmin@finning.ca](mailto:aguglielmin@finning.ca)

### FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements and information, which reflect the current view of Finning International Inc. with respect to future events and financial performance. Any such forward-looking statements are subject to risks and uncertainties and Finning's actual results of operations could differ materially from historical results or current expectations. Finning assumes no obligation to publicly update or revise its forward-looking statements even if experience or future changes make it clear that any projected results expressed or implied therein do not materialize.

Refer to Finning's annual report, management information circular, annual information form and other filings with the Ontario Securities Commission and Toronto Stock Exchange, which can be found at [www.sedar.com](http://www.sedar.com), for further information on risks and uncertainties that could cause actual results to differ materially from forward-looking statements contained in this report.

### COMPUTERSHARE TRUST COMPANY OF CANADA

#### **Halifax**

Computershare  
1465 Brenton St., Ste. 501  
P.O. Box 36012  
Halifax, Nova Scotia B3J 3S9

#### **Montreal**

Computershare  
Suite 700  
1500 University Street  
Montreal, Quebec H3A 3S8

#### **Toronto**

Computershare  
100 University Avenue,  
11th Floor  
Toronto, Ontario M5J 2Y1

#### **Calgary**

Computershare  
530 - 8th Ave. S.W., Ste. 600  
Calgary, Alberta T2P 3S8

#### **Vancouver**

Computershare  
510 Burrard St., 2nd Floor  
Vancouver, B.C. V6C 3B9

#### **Phone:**

North America  
1-800-564-6253  
International  
514-982-7555

#### **Fax:**

North America  
1-866-249-7775  
International  
416-263-9524

#### **Website:**

[www.computershare.com](http://www.computershare.com)

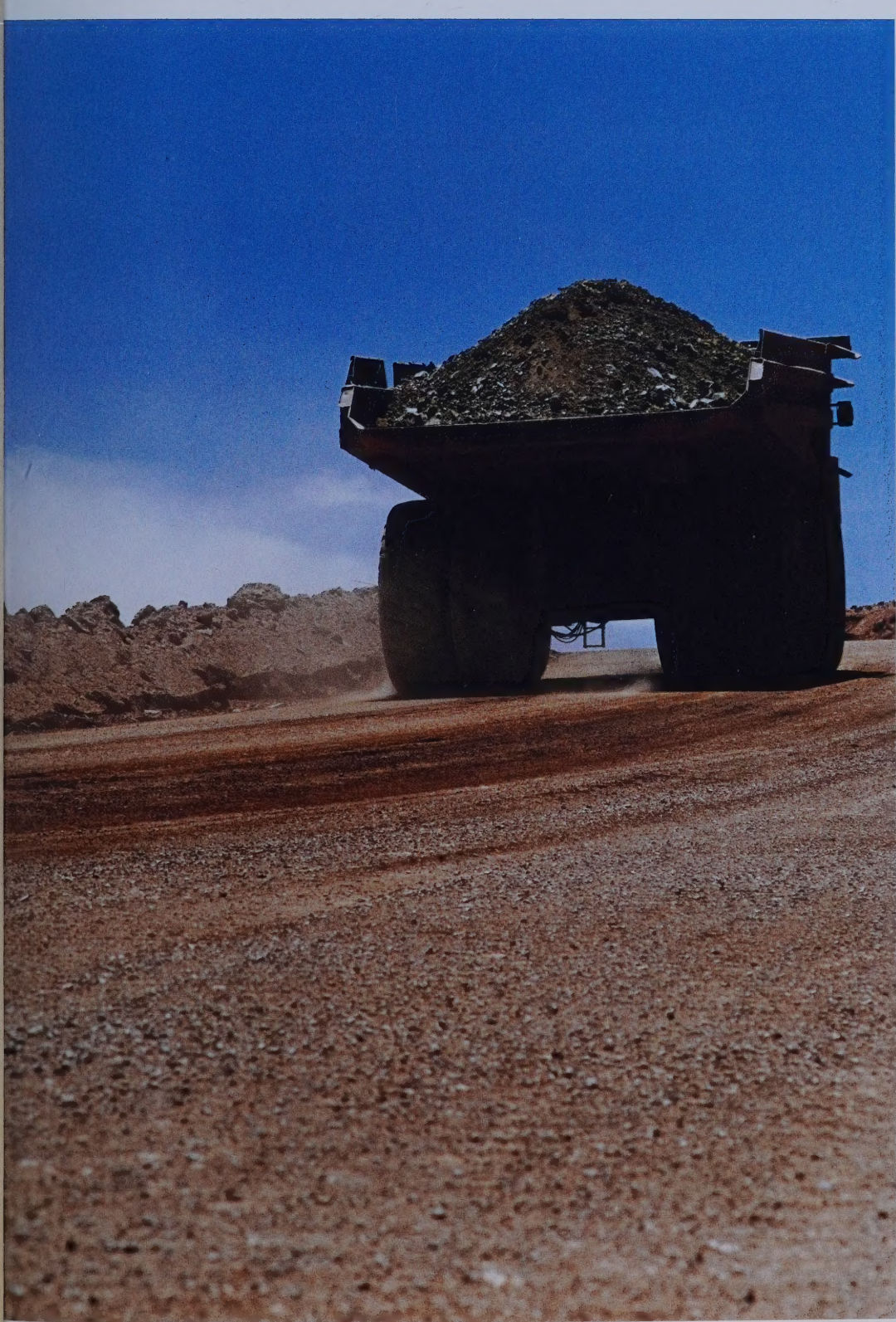
#### **email:**

[service@computershare.com](mailto:service@computershare.com)



**FROM HERE WE CAN GO ANYWHERE**





**FINNING**  
INTERNATIONAL INC.

PRINTED IN CANADA